

# The Economist

JANUARY 24TH-30TH 2015

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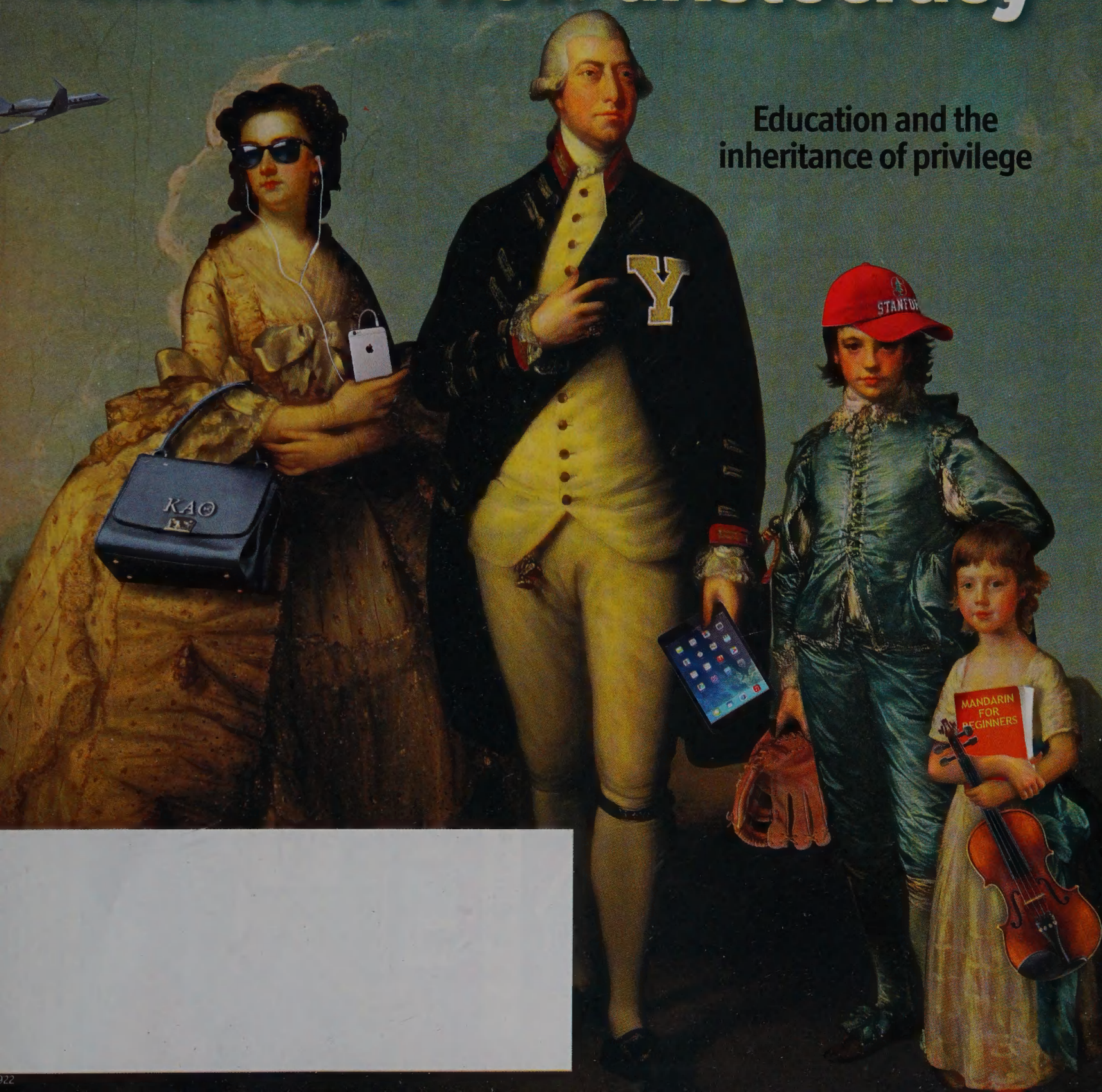
Skiing in China

Africa's private-equity boom

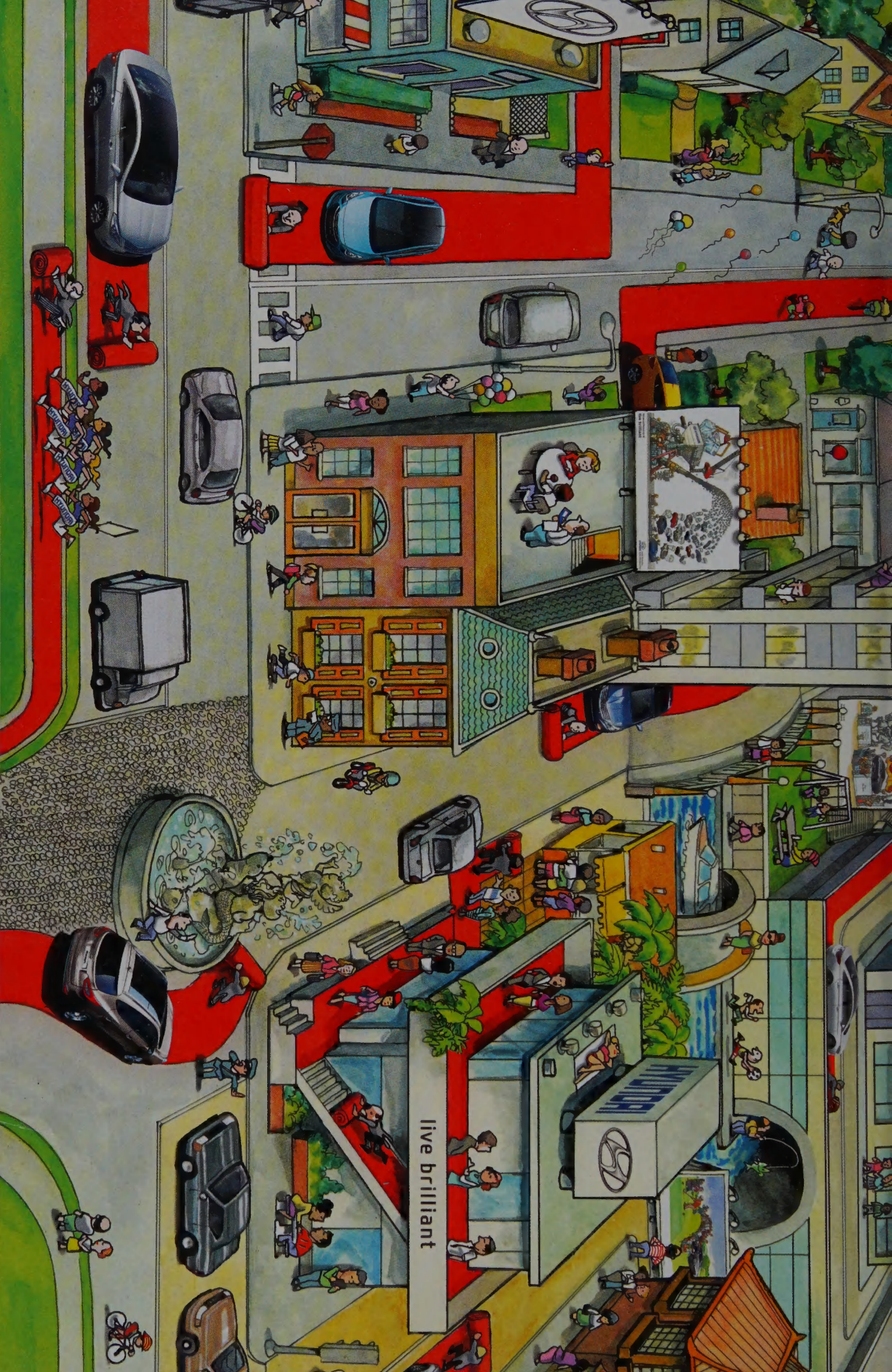
Marlboro Man rides into the sunset

## America's new aristocracy


Education and the inheritance of privilege



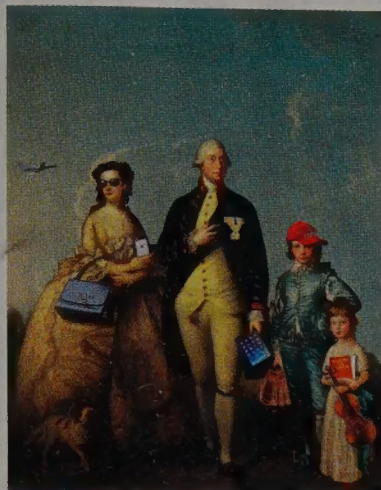




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**On the cover**  
As the importance of intellectual capital has grown, privilege in America has become increasingly heritable: leader, page 9. The children of the rich and powerful are getting better suited to earning wealth and power themselves. That's a problem, pages 17-20

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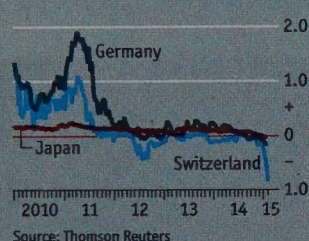


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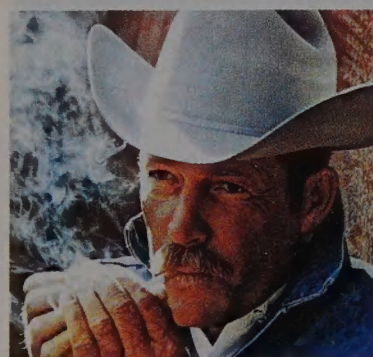
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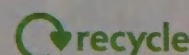
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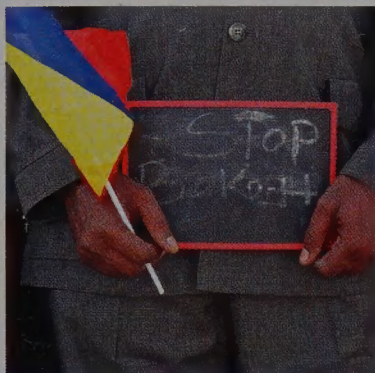
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## Politics



Chad sent 2,000 troops to Cameroon to help fight jihadists from **Boko Haram**, a group based in north-eastern Nigeria that has slaughtered thousands of people there and stepped up its raids across the Cameroonian border. Paul Biya, the president of Cameroon, described Boko Haram as a “global threat” as he appealed for international help.

At least 43 churches were burned in Niamey, the capital of Niger, as protests against the publication of satirical images of Muhammad in **Charlie Hebdo** turned violent. The global solidarity shown towards the French magazine after ten of its journalists were murdered by Islamists has not been shared by everyone. Protests also took place in Pakistan, Algeria and other countries; 800,000 attended a rally in Grozny, the capital of Chechnya, a Russian republic with a Muslim majority.

In **Yemen**, Houthi rebels aligned with Iran strengthened their hand in Sana'a, the capital, when they seized the presidential palace after a gunfight. They issued a number of constitutional demands to increase their power, but subsequently promised to pull back their forces in exchange for concessions.

### A global reach

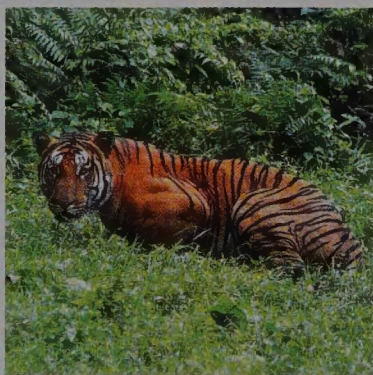
The prime minister of **Japan**, Shinzo Abe, cut short a tour in the Middle East to cope with a hostage crisis. Islamic State is demanding \$200m in ransom for the release of two Japanese nationals, one of them a journalist. The sum demanded is the same as that offered by Mr

Abe to Middle Eastern countries to fight extremism.

Prominent figures involved in a pro-democracy campaign in **Hong Kong** complied with summonses to report to the police. They included Joshua Wong, a student leader, and Jimmy Lai, a wealthy publisher. Both were arrested on their arrival, but released after being questioned.

Four district officials in **Shanghai** were dismissed for their alleged failings in connection with a stampede on New Year's Eve that killed 36 people on the city's iconic riverfront. A deputy mayor of Shanghai said the incident had been “totally avoidable”. The authorities have kept close watch on families of the victims, apparently in order to limit their contacts with journalists.

**Bangladesh** said it had arrested 7,000 opposition activists in recent weeks. At least 29 people have died in anti-government protests since the start of the year.



The latest census of **wild tigers** in India found that their number rose from 1,706 in 2010 to 2,226 last year. More guards have been hired, reserves protected and even villages voluntarily relocated. Because of poaching and habitat destruction, tigers in other parts of Asia are not faring as well.

### Lingering suspicions

Alberto Nisman, an **Argentine** prosecutor, was found dead from a gunshot wound hours before he was to present his allegations to a congressional committee that the government had tried to obstruct the inquiry into the bombing of a Jewish centre in Buenos Aires

in 1994. An investigating prosecutor said Mr Nisman had killed himself. But his death sparked protests by those who believe he was murdered.

The **United States** and **Cuba** began their highest-level talks in 35 years in Havana, focusing on migration and restoring diplomatic relations.

**Haiti's** president, Michel Martelly, appointed a new government. He has ruled by decree since mid-January, when a dispute with the opposition led to the dissolution of parliament. But opposition leaders rejected his claim that the new government represents a “consensus”. The street protests continued.

### More security, more inclusion

**France's** prime minister, Manuel Valls, announced plans to recruit hundreds more police and intelligence agents and spend more on surveillance after the Paris terror attacks. He also promised to tackle divisions in some French cities that he likened to a “social and ethnic apartheid”.

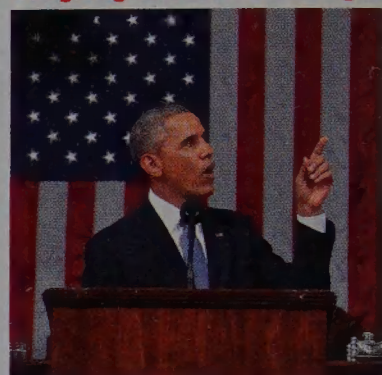
Troops were out on the streets in **Belgium** after a series of counter-terrorism raids in which two suspects were shot dead in a gun battle with police. In proportion to its population, Belgium has seen more jihadist fighters than any other European country go to fight in Syria and Iraq.

After an upsurge in fighting in **eastern Ukraine**, separatist rebels reportedly took control of Donetsk airport. Mortar fire killed 13 people at a bus stop in the city. But Russia denied claims by Ukraine's president, Petro Poroshenko, that as many as 9,000 Russian soldiers are now fighting in the region.

The British government unveiled a draft bill to transfer more powers to **Scotland**. Ahead of last September's vote on independence, which Scots rejected, the main parties in Westminster agreed to more devolution for Scotland, though the legislation will not

become law until after a general election in May. Support for the Scottish Nationalists has soared since September, which could translate into more seats in Parliament.

### Not going down without a fight



Barack Obama gave his annual **state-of-the-union** speech to Congress. Continuing with his theme that he does not intend to be a lame-duck president in his last two years in office, Mr Obama announced several new policies, including paid sick leave for workers and ending a tax break on the “accumulated wealth” of the very richest Americans. Republicans sat on their hands for most of the speech; they are unlikely to allow many of Mr Obama's ideas to become law.

America's Supreme Court put **gay marriage** back on its agenda by accepting cases for a hearing in April. Last October the Court declined to put an appeal against same-sex marriage on its docket, opening the way for lower courts to legalise it in a number of states. But other courts have since upheld state bans. The ruling, expected by late June, will decide once and for all whether there is a constitutional right for gay couples to marry.

Meanwhile, the Court sided with a Muslim prisoner in Arkansas and decided that he could grow a short **beard** on religious grounds. Prison officials had claimed that the beard was a security risk, but after going through the arguments with a fine-tooth comb the justices ruled unanimously that there were more “plausible” places on the body to hide drugs or weapons. For the prisoner it was another close shave with the law.



## Business

Markets expected the **European Central Bank** to introduce a big programme of quantitative easing to buy sovereign bonds for the first time. The central banks of America, Britain and Japan brought in their own QE programmes long ago, but German opposition to the policy has held the ECB back. The recovery in the euro zone remains weak and it has entered a period of "lowflation".

### Roiled by oil

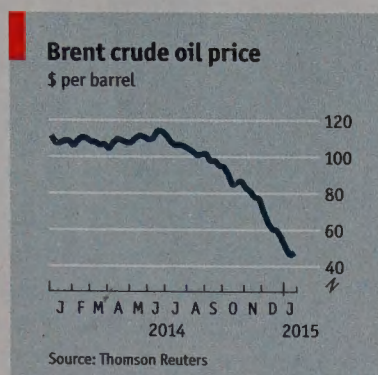
The **Bank of Canada** made a surprise decision to cut its benchmark interest rate from 1% to 0.75%. The last cut was in 2009. The central bank said it was responding to "the recent sharp drop in oil prices, which will be negative for growth and underlying inflation".

All nine members of the **Bank of England's** Monetary Policy Committee have, for the first time since August, voted to keep interest rates at record lows, according to the minutes from their latest meeting. In previous meetings two members of the MPC, Martin Weale and Ian McCafferty, argued that rates should rise as the economy gathers steam, but they are more concerned now about the prospect of a long bout of very low inflation.

The unexpected decision by Switzerland's central bank to end the **Swiss franc's** currency ceiling continued to reverberate. Alpari, a foreign-exchange trading firm based in London, declared bankruptcy and some European banks warned that profits would be hurt. Many homeowners in Poland, Croatia and other countries who have taken out mortgages denominated in Swiss francs counted the cost of soaring repayments.

**China's** GDP grew by 7.4% in 2014, the slowest pace since 1990. After years of hot growth the country's leaders are trying to chart a course that makes investment less reliant on the credit that has fuelled a proper-

ty boom, but also lifts the living standards of China's burgeoning middle class.



The tumbling price of oil caused more oil companies to curtail their operations. Total, which is based in France, said it would cut spending on production in the North Sea and Canada and accelerate a cost-cutting programme; Baker Hughes and Schlumberger became the latest oilfield-services firms to axe jobs; and BHP Billiton said it would reduce the number of rigs it deploys in shale-oil projects.

**Standard & Poor's** was fined by America's Securities and Exchange Commission and banned for a year from providing credit ratings for some types of mortgage securities backed by commercial property. It is the first time the regulator has penalised a credit-rating agency, finding that S&P

had elevated "its own financial interests above investors by loosening its rating criteria" for the securities and then tried to hide the changes.

Britain's Serious Fraud Office closed its investigation into claims that **Autonomy** misrepresented its financial situation to Hewlett-Packard when it was taken over by the Silicon Valley giant in 2011. HP eventually wrote off \$8.8 billion, \$5 billion of which allegedly related to accounting irregularities at the British software firm. The SFO said that after a two-year inquiry it had found insufficient evidence to secure a conviction and ceded jurisdiction in the matter to the American authorities.

**EBay** said that it might split itself into three companies rather than two. Besides selling PayPal, its payments division, it may also sell a unit that manages retailers' e-commerce operations. It also announced plans to cut 2,400 jobs.

### Charm offensive

Travis Kalanick, the boss of **Uber**, an app-based taxi service, told a conference that he wanted a "new partnership" with European regulators after months of lawsuits. Adopting a conciliatory tone, Mr Kalan-

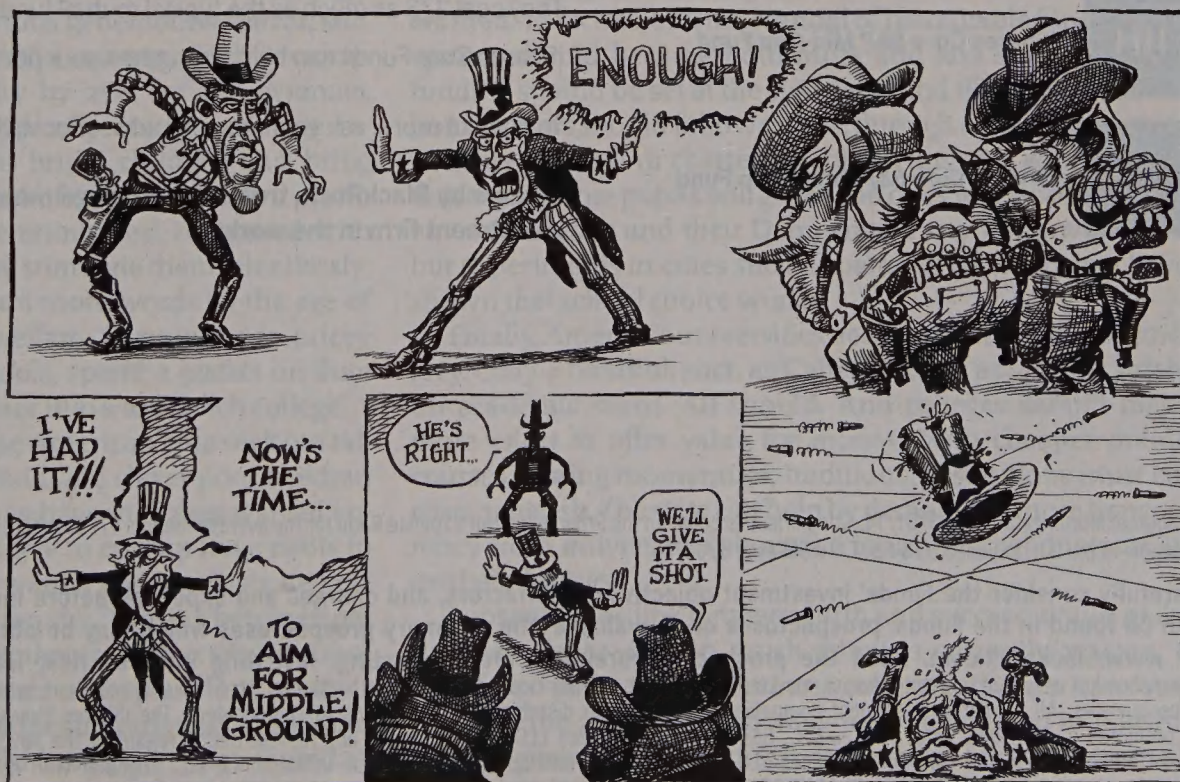
ick recognised that a new legal framework is needed to cope with the growth of taxi apps.

The tobacco industry criticised plans by Britain to press ahead with **plain packaging** for cigarettes. Many thought the idea had been shelved. Cigarette-makers say plain packaging interferes with their commercial freedom to differentiate their products from their rivals' and will cause counterfeit trade to rise.

Tributes were paid to **Peter Wallenberg**, one of Sweden's leading industrialists, who has died aged 88. He was the head of the Wallenberg family, which over the past century has acquired interests in Swedish multinationals and is credited with helping to turn Sweden into a dynamic economy. Despite his wealth he led an inconspicuous lifestyle, following his family's motto of "To be, not to be seen".

In contrast, Industrivarden, a rival Swedish conglomerate, flew into trouble over claims of excessive use of **private jets** at one of its companies. Its chairman stepped down amid the furore.

**Other economic data and news** can be found on pages 80-81





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# America's new aristocracy

As the importance of intellectual capital grows, privilege has become increasingly heritable



**W**HEN the candidates for the Republican presidential nomination line up on stage for their first debate in August, there may be three contenders whose fathers also ran for president. Whoever wins may face the wife of a former president

next year. It is odd that a country founded on the principle of hostility to inherited status should be so tolerant of dynasties. Because America never had kings or lords, it sometimes seems less inclined to worry about signs that its elite is calcifying.

Thomas Jefferson drew a distinction between a natural aristocracy of the virtuous and talented, which was a blessing to a nation, and an artificial aristocracy founded on wealth and birth, which would slowly strangle it. Jefferson himself was a hybrid of these two types—a brilliant lawyer who inherited 11,000 acres and 135 slaves from his father-in-law—but the distinction proved durable. When the robber barons accumulated fortunes that made European princes envious, the combination of their own philanthropy, their children's extravagance and federal trust-busting meant that Americans never discovered what it would be like to live in a country where the elite could reliably reproduce themselves.

Now they are beginning to find out, (see pages 17-20), because today's rich increasingly pass on to their children an asset that cannot be frittered away in a few nights at a casino. It is far more useful than wealth, and invulnerable to inheritance tax. It is brains.

## Matches made in New Haven

Intellectual capital drives the knowledge economy, so those who have lots of it get a fat slice of the pie. And it is increasingly heritable. Far more than in previous generations, clever, successful men marry clever, successful women. Such "assortative mating" increases inequality by 25%, by one estimate, since two-degree households typically enjoy two large incomes. Power couples conceive bright children and bring them up in stable homes—only 9% of college-educated mothers who give birth each year are unmarried, compared with 61% of high-school dropouts. They stimulate them relentlessly: children of professionals hear 32m more words by the age of four than those of parents on welfare. They move to pricey neighbourhoods with good schools, spend a packet on flute lessons and pull strings to get junior into a top-notch college.

The universities that mould the American elite seek out talented recruits from all backgrounds, and clever poor children who make it to the Ivy League may have their fees waived entirely. But middle-class students have to rack up huge debts to attend college, especially if they want a post-graduate degree, which many desirable jobs now require. The link between parental income and a child's academic success has grown stronger, as clever people become richer and splash out on their daughter's Mandarin tutor, and education matters more than it used to, because the demand for brainpower has soared. A young college graduate earns 63% more than a high-school

graduate if both work full-time—and the high-school graduate is much less likely to work at all. For those at the top of the pile, moving straight from the best universities into the best jobs, the potential rewards are greater than they have ever been.

None of this is peculiar to America, but the trend is most visible there. This is partly because the gap between rich and poor is bigger than anywhere else in the rich world—a problem Barack Obama alluded to repeatedly in his state-of-the-union address on January 20th (see page 21). It is also because its education system favours the well-off more than anywhere else in the rich world. Thanks to hyperlocal funding, America is one of only three advanced countries where the government spends more on schools in rich areas than in poor ones. Its university fees have risen 17 times as fast as median incomes since 1980, partly to pay for pointless bureaucracy and flashy buildings. And many universities offer "legacy" preferences, favouring the children of alumni in admissions.

## Nurseries, not tumbrils

The solution is not to discourage rich people from investing in their children, but to do a lot more to help clever kids who failed to pick posh parents. The moment to start is in early childhood, when the brain is most malleable and the right kind of stimulation has the largest effect. There is no substitute for parents who talk and read to their babies, but good nurseries can help, especially for the most struggling families; and America scores poorly by international standards (see page 18). Improving early child care in the poorest American neighbourhoods yields returns of ten to one or more; few other government investments pay off so handsomely.

Many schools are in the grip of one of the most anti-meritocratic forces in America: the teachers' unions, which resist any hint that good teaching should be rewarded or bad teachers fired. To fix this, and the scandal of inequitable funding, the system should become both more and less local. Per-pupil funding should be set at the state level and tilted to favour the poor. Dollars should follow pupils, through a big expansion of voucher schemes or charter schools. In this way, good schools that attract more pupils will grow; bad ones will close or be taken over. Unions and their Democratic Party allies will howl, but experiments in cities such as battered New Orleans have shown that school choice works.

Finally, America's universities need an injection of meritocracy. Only a handful, such as Caltech, admit applicants solely on academic merit. All should. And colleges should make more effort to offer value for money. With cheaper online courses gaining momentum, traditional institutions must cut costs or perish. The state can help by demanding more transparency from universities about the return that graduates earn on their degrees.

Loosening the link between birth and success would make America richer—far too much talent is currently wasted. It might also make the nation more cohesive. If Americans suspect that the game is rigged, they may be tempted to vote for demagogues of the right or left—especially if the grown-up alternative is another Clinton or yet another Bush. ■



## Nigeria and Boko Haram

## The black flag in Africa

Only if the government tackles misrule and endemic corruption will the jihadist group be beaten



IS BOKO HARAM becoming Africa's Islamic State? In its bloodlust and ambition to hold territory, it certainly resembles the jihadists in Iraq and Syria. Boko Haram has carved out a "caliphate" the size of Belgium in the impoverished north-eastern corner of Nigeria. And like IS, it is exporting jihad across post-colonial borders (see page 44).

What started as a radical but mostly political movement in 2002 has turned, especially since a heavy-handed crackdown in 2009, into a jihadist insurgency that has grown more violent every year. In April 2014 it abducted 276 girls from the town of Chibok. Some fled, some died, and many were sold into slavery or forced to "marry" fighters. Now the uprising is spreading to other countries. A week ago, 80 Cameroonians were kidnapped. Chad is sending troops to help Cameroon; Niger and Benin also feel threatened.

In the same week the world was outraged by jihadist attacks in Paris that killed 17 people, little attention was paid to news that as many as 2,000 had been killed by Boko Haram in and around the Nigerian town of Baga. Some people accuse Western journalists of double standards, and there is a proper debate to be had about news values. But the accusation misses the real outrage: Nigeria's own leaders have wilfully ignored the carnage in their country. President Goodluck Jonathan was quick to denounce the attack against *Charlie Hebdo*, but it took him nearly a fortnight to speak out about the wanton destruction in Baga.

When asked about the five-year-old insurgency, which has so far killed some 16,000 people and displaced about a million, Mr Jonathan says that Boko Haram is part of an international problem, implying that Nigeria cannot tackle it alone. But he

cannot shirk responsibility. Boko Haram is, first and foremost, a product of Nigeria's broken and kleptocratic politics which now risks destabilising neighbouring states.

Even the prospect of elections on February 14th has failed to galvanise Mr Jonathan. Ironically, Boko Haram's success has made his re-election more likely. The president's political base is in the mainly Christian south which, untroubled by the northern insurgency, is enjoying an economic boom. The chances of his main rival, Muhammadu Buhari, a tough northern ex-general, have been dealt a blow by Boko Haram's displacement of many of his potential supporters.

## Bad luck, Nigeria

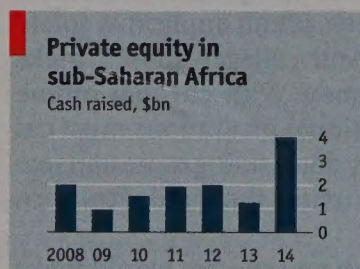
There are tentative signs that a more concerted approach to dealing with the menace may be emerging. This week the UN Security Council urged countries in the region to combine their efforts against the Islamists. A day later, officials from west African states met in Niger to discuss the creation of a multinational task-force. Encouraging though such moves are, a joint force will not be effective unless Nigeria is prepared to confront its problems.

There is plenty that a determined Nigerian government could do. For a start, the country needs better-resourced and more law-abiding security services. Nigeria spends \$6 billion a year on defence and security but soldiers often mutiny or desert, in part because senior officers skim off money for kit and pocket the lower ranks' wages. Many citizens are almost as terrified of the undisciplined army and police as they are of Boko Haram. Systemic corruption and misrule have fed Islamic radicalisation and ethnic militancy in other ways, by robbing the poorer north of its share of federal oil revenues and stunting its development. If Mr Jonathan or his successor does not start dealing with the insurgency and its causes, the government may well find it does not have a country to govern. ■

## Private equity in Africa

## Unblocking the pipes

Africa needs a lot of capital. Private equity offers lessons on how to get it there



HOUSED until recently behind a German beer garden in a shopping mall, Namibia's stockmarket has just a handful of actively traded stocks. Its low profile is not unusual for Africa: the continent's public markets are mostly small and illiquid.

That is not the only reason why entrepreneurs find it hard to raise capital. Pension schemes, which provide long-term capital elsewhere, have been looted or repressed in many countries and are thus rarely viable investors. And local banks are failing to meet demand for affordable loans. Banking penetra-

tion is low and, with most households keeping their savings under the mattress, banks cannot recycle deposits into loans. Moreover, many were nationalised in the 1970s and have been poorly run since, often treated as piggy-banks by politicians.

Africa is desperately short of investment, both from locals and international investors: an extra \$90 billion a year is needed for infrastructure, never mind other businesses. This is throttling development. Infrastructure bottlenecks alone are thought to cut growth in sub-Saharan Africa by two percentage points a year. But many of the normal routes by which capital gets into economies are blocked in Africa.

The one door that has been wide open is that of private equity, which raised a record \$4 billion for Africa last year, ►►



helping businesses from toothpaste factories to mobile-phone providers (see page 55). Private-equity managers have always been willing to venture where others dare not. And for investors who want exposure to Africa, handing cash to such pioneers is often more attractive in terms of risk-adjusted returns than putting it in the underdeveloped public market.

In contrast to its reception in the rich world, private equity has been warmly welcomed in Africa. Some African governments have not only opened their gates to the barbarians, but have also offered sweeteners by, for instance, agreeing to have any disputes adjudicated abroad to mitigate the risk to investors of their assets being seized. But private equity alone cannot meet all Africa's investment needs. Even if they could raise enough capital, funds generally want to sell the firms they acquire within five years, whereas Africa especially needs longer-term investors to pay for railways, power lines and the like. It also needs a multitude of loans for small businesses because banks across large parts of the continent have proved very poor at providing these.

Given the huge shortfall in capital, the returns to investors who do dare to venture into Africa can be enormous. Shareholders in Uganda's privatised (and now publicly listed) electricity grid, for example, get a state-guaranteed return of 20% a year in dollars on all capital invested in the network. And the macroeconomic story is an appealing one: many African economies have grown by 5% a year or more over the past decade. Africa has the youngest population in the world. By 2060 the continent's middle class is expected to triple in size, to more

than a billion people.

With such juicy prospects investors should be flocking in. One reason they are not is because of capital restrictions in the rich world. New rules for insurance firms and pension funds in Europe, for instance, penalise long-term illiquid investments, such as the roads, ports and railways Africa so desperately needs. African governments are also to blame. Investors have not forgotten the rash of nationalisations across the continent in the 1960s and 1970s. Those governments that have defaulted on their debt (or had it forgiven) have to work particularly hard to regain international trust.

### Priming the pump

To get capital flowing more freely, rich countries need to review their own regulations. Rules that punish the holding of long-term assets are one place to start. So too are over-tough rules against money laundering, which discourage honest savers from using the banking system, reducing the capital that banks have to recycle into corporate loans.

Finally, African governments could do more to encourage the growth of their nascent capital markets. The recent issue by several countries of inaugural bonds has helped establish the basics, such as benchmark interest rates and a corporate-bond market. But more is needed. Setting up larger regional stock exchanges could provide the liquidity, security and ease of access that investors crave. For this to happen, the continent's leaders would have to set aside national vanity and instead focus on enriching the capital diet for all. ■

### Freedom of speech

## First—and last—do no harm

Speech should be freer than it is in many Western countries



THE march in Paris after the massacre at *Charlie Hebdo* was supposed to display international solidarity over the right of free expression. In retrospect, it was a pageant more of hypocrisy than of principle. The Russian foreign minister's attendance did not stop two of his countrymen being prosecuted in Moscow for holding *Je Suis Charlie* placards. His Saudi Arabian counterpart apparently saw no contradiction between the parade and the public flogging of a blogger in Jeddah two days before. Turkey is a champion locker-up of journalists, but its shameless prime minister turned up all the same. Meanwhile, somewhat misconstruing the point, in the name of modesty an Israeli ultra-Orthodox publication photoshopped the female leaders from its coverage.

Terrorism was the main issue in the Paris attacks, which targeted a kosher shop as well as a magazine. But the subsidiary row they ignited—about the parameters of free speech—has been stoked rather than soothed by their aftermath, and continues to roil the world (see page 53). *The Economist* believes the right to free speech should be almost absolute.

Begin with the obvious controversy: blasphemy. The pope last week sympathised with those who feel compelled to react to perceived slights against Islam. Disparage another's faith, he

said, and you "can expect to get punched". Not only were his comments a little unChristian, they were also deeply mistaken. Few subjects demand scrutiny as urgently as does religion—which, erroneously or otherwise, is invoked in conflicts and disputes around the globe. Muslims themselves forcefully, sometimes lethally, debate interpretations of their creed. Any censorship regime that exempts Islam or other religions from searching commentary is perverse.

Still, many Muslims see the safeguards afforded to ethnic groups in some countries by hate-speech laws and ask why their faith, which some consider more essential than their skin colour, should be denied such respect. In fact, religious faith is different, in that unlike race it is, or ought to be, a question of choice rather than biology. Nevertheless, the solution to this perceived double standard is not to carve out more exceptions to free speech, but to remove some of the existing ones.

### No fire in the theatre

It is, for example, understandable that denying the Holocaust is an offence in several European countries, but it is also anachronistic: the evidence requires no help from the law to overwhelm the deniers. Geert Wilders, a disreputable far-right politician, should not face prosecution, as he now does, for pledging to reduce the number of Moroccans in the Netherlands. Dieudonné M'bala M'bala, a comedian, should not have been arrested for flippantly associating himself with one ►►



► of the Paris killers. Likewise, Islamist zealots are entitled to exploit the West's freedoms to decry its decadence. Free societies are strong enough to absorb and discredit these idiocies.

That does not mean they should impose no restrictions at all. Even in America, with its admirable constitutional protections, free speech has limits. Child pornographers are rightly regarded as having committed a crime. Advocacy or incitement of violence is banned. Those caveats offer a sound precept: speech should be curtailed only when it is likely to cause serious harm—not including the emotional kind. The likelihood of harm will vary by time and place: in ethnically combustible parts of Africa, officials are entitled to be more stringent with rabble-rousing *génocidaires* than might be defensible elsewhere. But everywhere the rules should be as light as public order requires. The greater the leeway for suppression, the more likely rulers are to abuse it—witness the different cases of Russia, Saudi Arabia and Thailand.

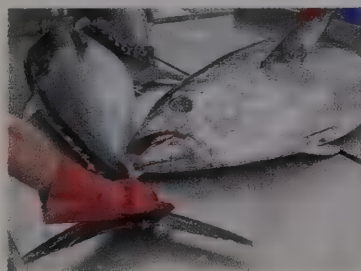
A common objection to this liberal stance is that, in the internet age, a book or caricature published in Europe can lead to deaths in Japan or Nigeria, as during the furores over Salman Rushdie's novel, "The Satanic Verses", the cartoons of Muhammad published in Denmark in 2005 and *Charlie Hebdo*. Such butterfly-wing effects, this argument runs, mean all governments should be stricter. On the contrary: the globalisation of outrage is further evidence that striving to pre-empt offence leads to a spiral of censorship. Take into account every fragile sensibility or unintended consequence on the other side of the world, and public discourse will shrink to vanishing.

The proviso—a vital one—is that not everything that is permitted is compulsory or desirable. Many words and images should be allowed that are neither prudent nor tasteful. Editors, broadcasters, politicians and citizens should be mindful of those values, too. But they should be matters of conscience, not for the law. ■

### The sea

## How to catch the overfishermen

**Big data allow fish to be protected as never before. Governments should take advantage of this**



**O**VERFISHING is reaching catastrophic levels. According to a recent study, stocks of the biggest predatory species, such as tuna and swordfish, may have fallen by 90% since the 1950s. Another study, published last week in *Science*, sug-

gests extinction is on the cards for many species. This matters for numerous reasons, not the least of which is that a lot of people rely on fish as part of their regular diet. About 3 billion of the Earth's inhabitants get a fifth or more of their protein from fish—which means that fish are a bigger source of the stuff than beef is.

The difficulty is, in part, a consequence of the problem known as the tragedy of the commons, whereby a commonly held resource is over-exploited. Nobody owns the high seas, which are therefore vulnerable to a perfectly legal free-for-all. But a lot of fishing is carried out in territorial waters that stretch 12 nautical miles from a country's coastline, as well as so-called exclusive economic zones that stretch to 200 nautical miles beyond coastlines, over which a more limited sovereignty exists. Governments, in thrall to fishing lobbies which are more concerned with making money today than preserving fish stocks for the future, set unrealistic quotas, and there is a lot of illegal fishing too, conducted without permission in controlled waters. The Pew Charitable Trusts, an American research group, estimates that one fish in five sold in a shop or served in a restaurant has been caught illegally. That amounts to 26m tonnes of fish a year, worth more than \$23 billion.

Until now, trying to stop this illegal trade has been more or less futile. The oceans are vast. Navies and coastguard patrols are small. Even finding those who are up to no good has been hard. That, though, is changing through the use of "big data". It is now feasible (see page 70) to synthesise information from sources such as radio transponders and satellite observations, in order to track every ocean-going vessel that is, or might be, a

fishing boat. Such data can show when a vessel is behaving suspiciously in a prohibited area. They can also link particular vessels with the receiving ships to which they transfer their catches for transport to market.

This promising system will work only if governments enforce existing rules. Like other vessels, fishing boats are required to carry transponders that indicate their position, speed and direction. Captains may switch their transponders off, of course. But the very act of doing so will be noticed, and will immediately suggest they are, as it were, up to something fishy. Other means of scrutiny, such as direct observation by satellite, can then be brought to bear.

### Chain reaction

Crucially, given many governments' ambivalence towards enforcing fisheries rules—especially when their own nationals are fishing in other people's waters—the new technology will also help companies protect their supply chains. The one-in-five illegal fish identified by Pew are often being sold by otherwise law-abiding firms that have no way of reliably tracing them back to the vessels that caught them. Soon, retailers will be able to do so—and at least some of their customers will care enough about the matter to make sure these supply chains are, indeed, traced routinely in the way that meat is now traced from farm to chiller-cabinet.

The existence of policing technology will also make it easier to set up marine reserves in which fish can breed, to the benefit of fisheries outside these protected areas. Experiments have shown that these reserves increase catches in the long term, provided no one cheats by plundering them. Big data will make it easier to stop such plunder.

There is a nice irony in this development. Overfishing is the product not just of human greed, but also of technologies such as sonar that have made finding and catching fish far more efficient in recent decades. It is a matter for celebration that technology is now up to the task of catching illegal fishermen as well as fish. ■





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## Quality control at work

SIR – I appreciated your briefing about the availability of on-demand freelance workers and how they will reshape the future of employment (“There’s an app for that”, January 3rd). You missed one important point however. As anyone who has managed a large team knows, work produced by people who supposedly have the same skills tends to be of variable quality. The less control you have over the people providing the work, the less consistent it becomes. The provision of freelance services by third parties is likely to bring about a race to the bottom on price, and quality will suffer for two reasons.

The first is that the best service providers will not want to work for the new rates set by the market, and they will look elsewhere. The second is that younger professionals will never gain the training and experience that those of us in our 30s and 40s were lucky enough to have as juniors, working long hours as part of an in-house team, law firm, ad agency and so on. In the short-term this means frustrating times for clients spending their time having to project-manage disengaged freelancers. Over the long-term it will result in a big drop in quality or a (near) return to the status quo.

ANDREA COCKRAM  
Chief executive  
IMPACT Communications  
Paris

SIR – There is another group that stands to benefit from the trend of specialised freelance workers: those who live in relatively less-desirable places. We have specialist doctors in Palm Springs and Chelsea consulting with patients in Kabul and Yangon in their spare time. In previous times geography and risk would have made this economically unfeasible. On-demand access can deliver services that otherwise wouldn’t exist.

ASCHKAN ABDUL-MALEK  
Chief executive  
AlemHealth  
Dubai

SIR – Radio announced the death of theatre, television announced the death of radio, and so on. Come the 2020s, on-demand labour will probably announce the death of corporations, although history suggests the two will co-exist through evolution. Meanwhile, we can order a fresh and tasty meal by tapping our smartphone. Long live the customer.

SACHIN VERMA  
Washington, DC

## Canada’s immigrants

SIR – Canada didn’t invent the points system for immigrants in 1967 because of idealism, as you suggest, but rather to combat rapidly diminishing immigration from west Europe (“No country for old men”, January 10th). The points system was designed to select those whom bureaucrats believed to be the most adaptable individuals from Asia, Latin America and other regions. With strong economic growth and a welfare state at its height, there was little need for politicians, or immigrants, to worry much about job opportunities.

The new immigration policy that gives priority to those with job offers returns Canada’s immigration policy to its roots: an inexpensive means to attract workers. From the European fur traders in the 1700s to the farmers recruited en masse to settle the prairies at the start of the 20th century, Canada has always been extraordinarily skilful at exploiting immigration policy to serve the needs of the labour market.

PROFESSOR THOMAS KLASSEN  
Department of political science  
York University  
Toronto

## Fascist roots

SIR – “The man who thought Gandhi a sissy” (December 20th) mentioned that the Hindu paramilitary Rashtriya Swayamsevak Sangh (RSS) movement in India was modelled on the British army. There is considerable evidence, however, that it was fashioned

on the *Balilla* and *Avanguardisti* youth organisations of fascist Italy. B.S. Moonje, a leading Hindu nationalist, was strongly influenced by the ideology of fascism. He travelled to Rome in 1931 where he met Mussolini and was impressed by the military underpinnings in Italian society, particularly in the youth movement. On his return he set out to organise the RSS along similar lines. Fascist ideas had an audience in the 1930s with India’s Marathi nationalists, thanks to the work of the Italian consulate in Bombay. This waned with the second world war, but the model, uniforms and practice followed by the RSS closely resemble to this day those of its fortunately long-extinct Italian counterparts.

Furthermore, during his exile in London Giuseppe Mazzini wrote in English and this is how he became known to many of the founding fathers of the Indian national movement. There are a few Mazzini societies still active in India and I daresay that he is more widely respected there than in his native Italy.

ANTONIO ARMELLINI  
Italian ambassador to India,  
2004–08  
Rome

## Harmful Greens

SIR – The dottiness of the Green Party is more substantial than Bagehot thinks (January 3rd). The Greens pay little heed to scientific evidence, their opposition to genetically modified crops being a prime example. The findings of national academies of science and by numerous scientific bodies that there is no evidence that GM crops have caused harm to human health or to the environment are simply ignored. Safety cannot formally be proven, but innumerable experiments have failed to find convincing evidence of danger, leading us to the conclusion that GM crops are safe.

At the same time, Greenpeace and Friends of the Earth have blocked the commercial cultivation of Golden Rice, a

food which could have prevented millions of children in Asia going blind from Vitamin A deficiency. The list of current and potential benefits of GM crops is a very long one.

Recently, the European Commission, to its eternal shame, abolished the post of chief scientific adviser, held by the excellent Anne Glover, as a result of lobbying by Greens because she favoured the promotion of GM crops.

DICK TAVERNE  
House of Lords  
London

SIR – Bagehot offered up the Greens’ policy of a stipend for all adults as evidence of their nuttiness. They do indeed have many nutty economic policies—abolishing fractional reserve banking being a particularly egregious one—but the basic income is not one of them. May I suggest a great article that makes a compelling case. You may be familiar with the publication (*The Economist*, “Means and ends”, October 4th 2014).

MATT KANE  
Bristol

## Opera critic

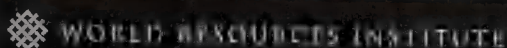


SIR – Two conductors have died while leading the second act of Wagner’s “Tristan and Isolde” you say (“A spine-tingling and blissful infinity”, January 3rd). Is anyone tracking how many audience members have died listening?

LAURA PEEBLES  
Arlington, Virginia ■

Letters are welcome and should be addressed to the Editor at The Economist, 25 St James’s Street, London SW1A 1HG  
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## An hereditary meritocracy

WASHINGTON, DC

**The children of the rich and powerful are increasingly well suited to earning wealth and power themselves. That's a problem**

**"MY BIG fear,"** says Paul Ryan, an influential Republican congressman from Wisconsin, is that America is losing sight of the notion that "the condition of your birth does not determine the outcome of your life." "Opportunity," according to Elizabeth Warren, a Democratic senator from Massachusetts, "is slipping away." Marco Rubio, a Republican senator from Florida, thinks that "each element" of the sequence that leads to success "is eroding in our country." "Of course you have to work hard, of course you have to take responsibility," says Hillary Clinton, a former first lady, senator and secretary of state, "but we are making it so difficult for people who do those things to feel that they are going to achieve the American dream." When discussing the chances of ordinary Americans rising to the top, politicians who agree about little else sound remarkably similar.

Before the word meritocracy was coined by Michael Young, a British sociologist and institutional entrepreneur, in the 1950s there was a different name for the notion that power, success and wealth should be distributed according to talent and diligence, rather than by accident of birth: American. For sure, America has always had rich and powerful families, from the

floor of the Senate to the boardrooms of the steel industry. But it has also held more fervently than any other country the belief that all comers can penetrate that elite as long as they have talent, perseverance and gumption. At times when that has not been the case Americans have responded with authentic outrage, surmising that the people at the top are, as Nick Carraway said, "a rotten crowd", with bootlegging Gatsby better than the whole damn bunch put together.

Today's elite is a long way from the rot-

ten lot of West Egg. Compared to those of days past it is by and large more talented, better schooled, harder working (and more fabulously remunerated) and more diligent in its parental duties. It is not a place where one easily gets by on birth or connections alone. At the same time it is widely seen as increasingly hard to get into.

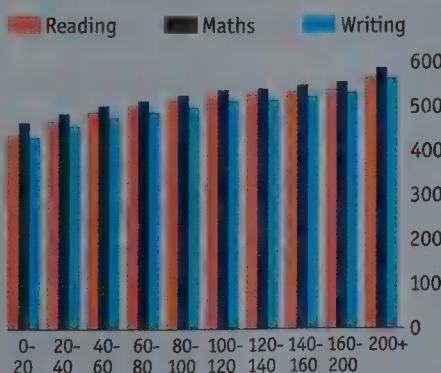
Some self-perpetuation by elites is unavoidable; the children of America's top dogs benefit from nepotism just as those in all other societies do. But something else is now afoot. More than ever before, America's elite is producing children who not only get ahead, but deserve to do so: they meet the standards of meritocracy better than their peers, and are thus worthy of the status they inherit.

### It takes two

This is partly the result of various admirable aspects of American society: the willingness of people to give money and time to their children's schools; a reluctance to impose a uniform model of education across the country; competition between universities to build the most lavish facilities. Such traits are hard to object to, and even if one does object they are yet harder to do anything about. In aggregate, though, they increase the chances of wealthy par-

### The wealthy and the wise

Average SAT scores by family-income bracket \$'000



Source: College Board

Also in this section

18 Good starts around the world



ents passing advantage on to their children. In the long run that could change the way the country works, the way it thinks about itself, and the way that people elsewhere judge its claim to be an exceptional beacon of opportunity.

Part of the change is due to the increased opportunities for education and employment won by American women in the twentieth century. A larger pool of women enjoying academic and professional success, or at least showing early signs of doing so, has made it easier for pairs of young adults who will both excel to get together. Between 1960 and 2005 the share of men with university degrees who married women with university degrees nearly doubled, from 25% to 48%, and the change shows no sign of going into reverse.

Assortative mating of this sort seems likely, on average, to reinforce the traits that bring the couple together. Though genes play a role in the variation of intelligence from person to person, this is not a crude genetic determinism. People tend to encourage in their children what they value in themselves and their partners. Thus people brought together by their education and status will typically deem such things important and do more to bring them out in their children, both deliberately and by lived example—processes in which nature and nurture are more than likely to work hand in hand.

Not only do graduate couples tend to value education; they also tend to have money to spend on it. And though the best predictor of an American child's success in school has long been the parents' educational level—a factor which graduates are already ahead on, by definition—money is an increasingly important factor. According to Sean Reardon of Stanford the past decades have seen a growing correlation between parental income and children's test scores. Sort the students who took the SAT, a test for college applicants, in 2014 by parental income and the results get steadily better the further up the ladder you climb (see chart 1 on previous page).

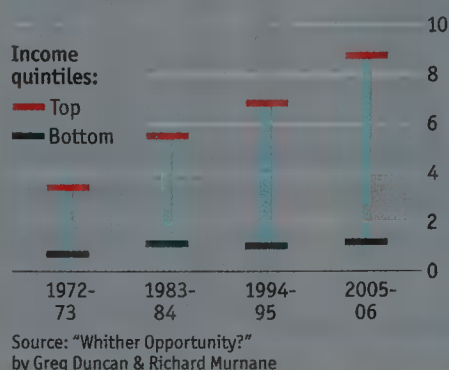
### First, cultivate your kindergarten

Another factor is family stability. Wealthier and better educated American families tend to marry before having children, and like most married couples they split up less than unmarried ones. This correlates with various good outcomes for their children.

The educational benefits of being born to wealthy parents are already clear in toddlers (see box). Families which are used to and eager for success try to build on them at kindergarten. Competition for private kindergarten places among high-status New Yorkers is farcically intense. Jennifer Brozost of Peas, an educational consultancy, recommends that parents apply to 8-10 kindergartens, write "love letters" to their top three, and bone up on how to make the

### "...but it's not fair"

Enrichment spending on children  
Constant 2008 dollars, '000



right impression when visiting. Some parents pay for sessions at which their children are coached on how to play in a way that pleases those in charge of admissions.

Once children enter the public school system—which about 90% of them do—the advantages of living in a well-off neigh-

bourhood kick in. America is unusual in funding its public schools through property taxes. States have a floor price for the education of each child, but parents can vote to pay more local tax in order to top this up, and frequently do. Funding levels per pupil can vary by up to 50% across a state, says Mike McShane of the American Enterprise Institute, a think-tank.

Sometimes this results in poor students in cities that collect lots of property tax being better funded than the children of wealthier families in the suburbs. More often, though, the opposite is true. The result is that America is one of only three advanced countries that spends more on richer pupils than poor ones, according to the OECD (the other two are Turkey and Israel). And on top of spending on school, there is spending outside it: the gap between what rich and poor parents shell out for museum trips, music lessons, books and so on has been widening (see chart 2). In a world where lots of people do well on

### The world's nurseries

## Getting 'em young

### Early education matters, but it is not everything

THE mayor of New York, Bill de Blasio, has promised that there will be free pre-schooling available to all the city's infants this year. It is one example of a wider American political enthusiasm for dealing with gaps in educational attainment by focusing on the youngest. International comparisons show that such measures have a long way to go—and that they are far from a cure all.

Figures from the OECD show America faring quite well on provision for 0-3-year-olds (see chart); but when it comes to providing pre-school for 3-to-5-year-olds it falls to the back of the class—behind Chile and just ahead of Lithuania and Greece.

Attitudes to the right way to spend early childhood years still vary around the world. Scandinavians dislike formal early schooling but relish subsidised day care earlier on. German parents put relatively few of their toddlers into formal crèches, but are happy for them to head off to kindergarten when they are three. Ambitious Asians, notably in South Korea, are keen on solid pre-schooling as a chance to improve educational outcomes and make them more consistent. The Swiss prefer to keep their kids at home a bit longer, but still do well by them overall.

Andreas Schleicher, head of the OECD's education team, says early-years investment does not "automatically produce gains in learning, unless systems

### Class action

Average enrolment of children in pre-school and child care  
% of total



transfer this to primary and secondary level". He has just published research showing that in a worrying number of rich-world countries more than 15% of young people are "unqualified". Those with a problem include France, the Netherlands, Norway and Denmark—all high scorers for early-years provision. A good start is not enough on its own. The system's stamina and consistency matters just as much—and possibly more.





# ARE YOUR DEVELOPERS SPENDING TIME

WRITING CODE THAT ALREADY EXISTS?

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### ▶ SATs, cultivating extra skills matters.

The opportunities for parental investment continue in higher education, which is ever more costly (see chart 3) but offers ever greater returns. Between 1979 and 2012 the income gap between the median family with college-educated parents and one with high-school educated parents grew four times greater than the headline-grabbing income gap between the top 1% of earners and the rest, according to David Autor of MIT, rising from \$30,000 to \$58,000.

Those whose parents have provided good schooling and good after-schooling have advantages already—but some get an extra one from institutions that discriminate in favour of the children of alumni. According to a survey by the *Crimson*, Harvard's newspaper, 16% of the 2,023 who got in last year had at least one parent among the university's alumni. Harvard says that legacy preference is only ever a tie breaker in admissions; but with 17 applicants for every place there can be a lot of ties.

### All this and lacrosse too

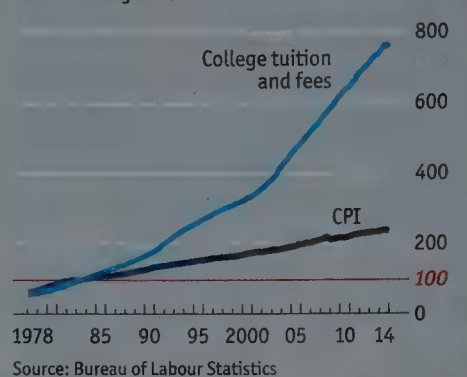
Most of the country's research universities and liberal arts colleges grant preferences to legacy students; the practice seems widespread at universities just below the top tier. The University of Pennsylvania is particularly friendly to the children of alumni, says Katherine Cohen of Ivywise, a firm with several ex-deans of admissions on its books which provides advice on getting children into the best schools. Though it is rare, stories still crop up of the parents of academically borderline students buying admission for their children with a generous bequest to a particular school.

The fierce competition between universities to build endowments makes doing such favours for alumni enticing. And there is a public-good argument for it: a student who comes with \$1m attached can pay for financial aid for many others. But in practice this is not how the system works. While it is true that some elite universities are rich enough to give out a lot of financial support, people who can pay the full whack are still at the centre of the business model for many. Mitchell Stevens, a Stanford sociologist who spent a year working in the admissions office of an unnamed liberal arts college in the north-east, found that the candidate the system most prized was one who could pay full tuition and was just good enough to make one of the higher-profile sports teams but had a strong enough academic record not to eat into the annual allocation reserved for students whose brains work best when encased in a football helmet.

Combined with the long-running push for racial diversity on college campuses, this makes for an esoteric definition of merit. Men are slightly under-represented across college campuses; African-Ameri-

### Knowledge is pricey

College tuition fees v inflation  
1982-84 average=100



cans are not, but can still benefit from some forms of affirmative action; and there is always a need for those who are good at sports. Poor whites and Asians get a bad deal from this kind of filtering. Though the Ivies all deny operating quotas to limit Asian students—the best performing group in SAT scores—the number admitted each year has fallen from its peak in 2008 and stays strangely consistent both from year to year and between institutions. Caltech, a university which admits purely on academic ability, has more Asian students than other elite schools. It also has much less feared sports teams.

On graduation, many members of America's future elite will head for the law firms, banks and consultancies where starting salaries are highest. Lauren Rivera of Kellogg School of Management interviewed 120 people charged with hiring in these sectors for a forthcoming book. She found that though they did not set out to recruit students from wealthy backgrounds, the companies had a penchant for graduates who had been to well-known universities and played varsity sports (lacrosse correlates with success particularly well). The result was a graduate intake that included people with skin of every shade

but rarely anyone with parents who worked blue-collar jobs. "When we are asked to identify merit," explains Ms Rivera, "we tend to find people like ourselves."

Something similar has happened in corner offices of America's biggest companies. As computing power has increased and clerical jobs have been automated, the distance between the shop floor and executive positions has increased. It was never common for people to start at the bottom and work their way to the top. Now it is close to impossible. Research by Nitin Nohria, the dean of Harvard Business School, and his colleagues has shown how in the second half of the 20th century a corporate elite where family networks and religion mattered most was replaced by one whose members required an MBA or similar qualification from a business school. This makes the managers better qualified. It also means they are the product of a serial filtering that has winnowed their numbers at school, college and work before they get their MBAs.

More than 50 years ago Michael Young warned that the incipient meritocracy to which he had given a name could be as narrow and pernicious, in its way, as aristocracies of old. In America some academics and thinkers on the left are coming to similar conclusions. Lani Guinier of Harvard speaks for many when she rails against the "testocracy" that now governs America. Once progressives saw academic testing as a way of breaking down old structures of privilege; there is now a growing sense that it simply serves to advantage those who have been schooled to excel in such situations. Heirs to Andrew Jackson on the right have their own worries about the self-perpetuation of an American elite, but no desire at all to use government as a leveller. Both sides can agree that the blending of merit and inheritance is un-American. Neither has plausible ideas for what to do about it. ■







### The state-of-the-union address

## “Middle-class economics”

WASHINGTON, DC

Barack Obama tries to set the tone for 2016

THE president's annual state-of-the-union message is a ritual with certain rules. The union, for example, is almost always “strong” (only in 1975 did Gerald Ford break this, saying that things were “not good”); the president's party always cheers him; the other party does not. But the main rule is that the president never admits that he can implement his agenda only by persuading others to go along with it. Barack Obama's sixth address, on January 20th, was no exception. Indeed, it showed more than ever the weakness of the world's most powerful man.

Mr Obama's speech was upbeat. America can now “turn the page” on the financial crisis, he said. With unemployment falling, a smaller deficit and cheaper fuel, he concluded that “we have risen from recession freer to write our own future than any other nation on Earth.” Pointing to increasing graduation rates, he argued that his government is doing its bit to “prepare our kids for a more competitive world”. He made a case for “middle-class economics”. This, apparently, “means helping working families feel more secure in a world of constant change.”

On foreign policy Mr Obama was not so much optimistic as Panglossian. “Instead of Americans patrolling the valleys of Afghanistan...we've honoured our troops' sacrifice by supporting that country's first democratic transition.” In Syria and Iraq, according to the president, America is “stopping ISIL's advance”—a ques-

tionable claim. Russia is weaker than a year ago, he rightly noted. But that is more because the price of oil has collapsed than because of American diplomacy.

Yet even as Mr Obama's ambition soared, the Republican congressmen facing him were a stony-faced reminder of how little he can do. Mr Obama's only reference to his party's crushing defeat in November's mid-term elections was his promise that if Congress passes a bill to undermine his health-care reform, loosen financial regulation or tighten the screws on immigrants, “it will have earned my veto.”

Few, if any, of Mr Obama's proposals seem likely to become law. His tax plan, for example, involves hiking capital-gains tax on the highest earners, slapping a new levy

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23 “Video visits” to jail

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24 Using body language to catch spies

26 The disability time bomb

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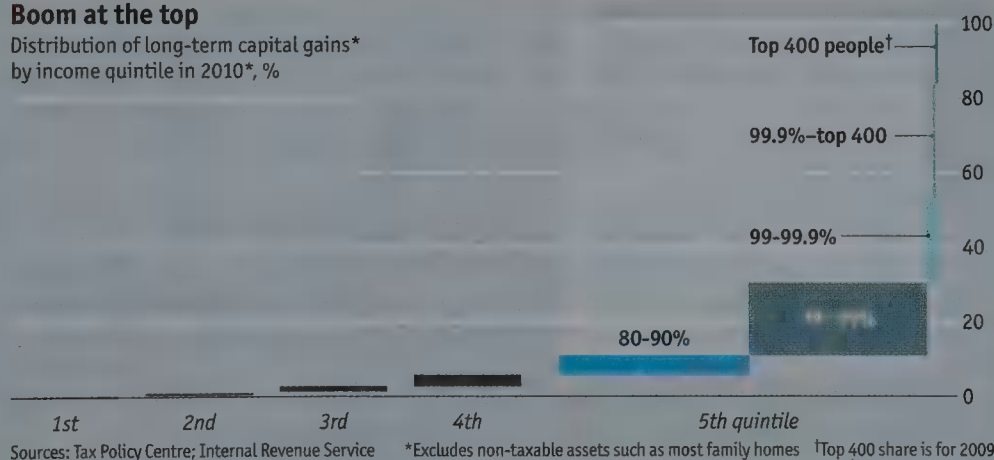
on big banks and closing a loophole which allows capital-gains tax to be avoided when the owner of an asset dies. Closing this loophole ought to be popular, since it benefits only the rich (see chart; most family homes, the main middle-class assets, are not subject to capital-gains tax). The proceeds would be used to pay for a tax cut for people of more modest means. Yet Republicans quickly dismissed the whole package, snorting that raising taxes will hurt investment and destroy jobs.

The speech seems to herald two more years of conflict between Congress and the president. Mr Obama's domestic programme sounded like a rallying cry for Democratic partisans rather than the basis for a deal with the other side. For example, he demanded that Congress pass a law guaranteeing women equal pay for the same work—something it actually did in 1963. He called for paid sick leave for 43m people who do not get any, free community college for qualified students, and more investment in infrastructure. Not much of this is likely to happen.

On foreign policy, the president sounded more pragmatic. He asked both parties to give him the authority to strike ►►

### Boom at the top

Distribution of long-term capital gains\* by income quintile in 2010\*, %





► trade deals with Asia and Europe; an idea which Republicans are much keener on than Democrats. He also reaffirmed his commitment to opening ties with Cuba (which some Republicans oppose). And he promised to veto any new sanctions bill which might undermine his attempts to coax Iran to give up its nuclear-weapons programme, arguing that America's allies—"including Israel"—would be made safer by the deal. That provoked a furious response from John Boehner, the Republican House speaker, who immediately invited the (hawkish) Israeli prime minister Binyamin Netanyahu to address Congress.

### Six down, one to go

This state-of-the-union message is best seen not so much as a statement of Mr Obama's intentions for the last two years of his presidency but as an attempt to influence the election campaign of 2016. He seems to be gambling that while Republicans in Congress will obstruct him, he can talk over them—and perhaps force them to adopt some of his ideas or else be seen fighting to protect the perks of the wealthy. "Will we accept an economy where only a few of us do spectacularly well?" asked Mr

Obama, daring the Republicans to say yes.

The modern state-of-the-union speech evolved as a way to boost the president: Woodrow Wilson began the tradition of delivering it in person; Lyndon Johnson had it televised at prime time in 1965. But Mr Obama's televised address was watched by just 33m Americans, the lowest number in recent history. Cable TV means that most people have more entertaining things to goggle at. A big effort to reach new viewers on the internet seems unlikely to have made up for this. (After Mr Obama's speech, he allowed himself to be interviewed by three YouTube bloggers, including one famous for trying to swallow a ladleful of ground cinnamon.)

More likely, his speech will be forgotten: much like Bill Clinton's call in 1999 for the federal surplus—remember that?—to be used to shore up Social Security (public pensions). At best, it will add to the conversation about how to help the middle class, which all presidential aspirants are keen to join. Mitt Romney, who has suggested he wants to run for a third time, is even calling for Republicans to "lift people out of poverty". Americans have two more years of this stuff to look forward to. ■

### The Republican response

## When Joni poked Barry

WASHINGTON, DC

### A polite request for the president to co-operate

JONI ERNST did not flub her lines or commit any gaffes. So compared with Republican efforts of recent years, her response to Barack Obama's state-of-the-union message was a success. But the new senator from Iowa had promised, during her campaign, to make Washington squeal like a hog having its testicles removed, and platitudes rarely have that effect. Her personal stories of hardship—like using bread bags as a child to keep rain off her shoes—were aimed more at the heart than any other organ.

Like the president before her, Mrs Ernst's speech suggested little willingness to compromise. Having walloped the Democrats in the mid-term elections, Republicans feel that the president should move in their direction. Mrs Ernst called for repealing Obamacare, which Mr Obama obviously won't allow, and building the Keystone XL oil pipeline, which he probably won't.

She called for tax reform, without raising rates as Mr Obama would like. She urged the president to get on board, though her party doubts he will. Mr Obama shows "no willingness to even meet somewhere in the middle on issues that have been percolating for some time", said Richard Burr, a senator from

### Hogging the limelight

North Carolina.

That is not entirely true. Mr Obama and Mrs Ernst agreed on the need for trade deals with Asia and Europe. And Republicans seem likely to authorise the use of force against Islamic State, as the president asked. But on domestic issues, the gulf between the parties is as wide as ever. "What he's talking about so far he knows doesn't have any chance whatsoever of passing," said Lamar Alexander, a senator from Tennessee. Mrs Ernst was more polite. "With a little co-operation from the president," she said, "we can get Washington working again."



### Race and the Supreme Court

## Disparate dilemma

WASHINGTON, DC

### The court mulls a controversial theory about how to prove discrimination

IT HAS been a dramatic week at the Supreme Court. On January 16th the justices agreed to consider, in April, whether gay couples have a constitutional right to marry. (A decision will come in June.) On January 21st seven hecklers disrupted the marble-pillared courtroom to protest about a five-year-old free-speech case. And the court heard *Texas Department of Housing v Inclusive Communities Project (ICP)*, a dispute about housing that could affect the way America deals with claims of racial discrimination more broadly.

The narrow issue concerns subsidised homes. Texas doles out tax credits to firms that build apartment blocks for poor people. Under the Fair Housing Act of 1968 lenders, landlords and developers are all barred from discriminating against individuals "because of race". The ICP, a non-profit, claims that the Texan state housing agency did just that. From 1995 to 2009 it gave no credits to build cheap homes in the white suburbs of Dallas, backing development in neighbourhoods populated by racial minorities instead. This perpetuated "ghetto conditions", says the ICP.

Not so, says Texas. Developers built subsidised homes in poor areas because land is cheaper there and the neighbours are unlikely to object. There is no evidence of intentional discrimination, so the ICP is relying on the theory of "disparate impact", which deems any act that disproportionately harms minorities to be discriminatory, regardless of intent.

And this is where the case gets interesting. "Disparate impact" is much easier to prove than deliberate discrimination, so civil-rights activists love it. Businesses hate it, because almost anything a large organisation does will have a disparate impact on some group or another. Conservatives hope that the court will use this case as a step towards striking down disparate impact theory entirely—a result that would appal Barack Obama, whose officials have been pushing for it to be used more widely not only in housing but also in cases to do with employment, lending and schools.

Such a bombshell is unlikely, but not impossible. "Racial disparity is not racial discrimination," scolded Justice Antonin Scalia, a conservative, "The fact that the NFL is largely black players is not discrimination." A decision is expected in the spring and may turn on Justice Anthony Kennedy, who sometimes favours race-conscious government measures. ■



## Conditions behind bars

## Screening visitors

ATLANTA

## Prisons profit by stopping family visits

**I** KNOW that my son is moving and talking on the other side of the screen, but when the video freezes you have to start the conversation all over again," one mother says. She is in Rhode Island; he is almost 2,000 miles away, in jail in Hays County, Texas. "The picture is grainy and I can never see how he really is," she explains, "but these sessions mean a lot because I'm so far away."

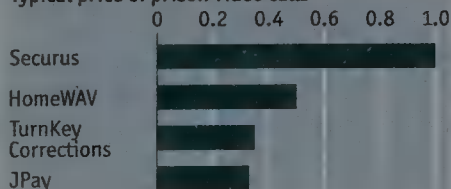
A new study by the Prison Policy Initiative finds that families with relatives in 511 lockups across America are in a similarly bleak situation. Some 386 jails—about 12% of the total—offer "video visits". Peter Wagner, one of the study's authors, calls the spread of these services "a scandal" that remains "totally off the radar".

The option of a video visit might be useful for loved ones who live far away, so long as in-person visits are also allowed. But many prisons offer screen time instead of face time, arguing that prisoners do not need the latter since they can have the former. What is more, kiosks for calls are in public spaces, meaning that inmates have to be careful what they say. And calls are costly: \$29.95 for 20 minutes of talk in Wisconsin's Racine County, for example. Securus, a large firm providing communications services to 2,200 lockups, typically charges a dollar a minute for a video call (see chart).

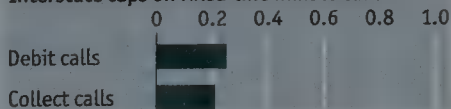
## A captive market

\$ per minute, 2014

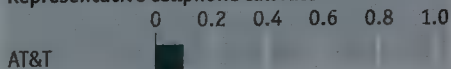
## Typical price of prison video calls



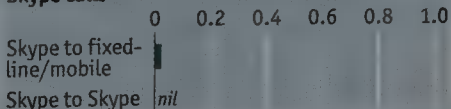
## Interstate caps on fixed-line inmate calls



## Representative cellphone call rate



## Skype calls



Sources: Prison Policy Initiative; The Economist



No touching allowed

Five of the seven main companies that run video chats, including Securus, require a chunk of time to be bought in advance of a scheduled call—irritating if glitches ruin a session, as they often do. Before May 2014, when Clark County, Nevada revamped its Renovo video system, more than half of its average of 15,000 monthly video visits were cancelled after technical problems.

Most jails let relatives make a few free video calls if these are conducted within the prison itself. But travelling a long way, only to sit behind a computer screen, is time-consuming and frustrating. And in-person visits ought to be encouraged: just one can reduce the likelihood of an inmate reoffending by 13%, according to a study in 2011 by the Minnesota Department of Corrections. Incredibly, 74% of jails have banned visitors from seeing inmates after introducing video services. Securus has even demanded it. (The firm did not return requests for comment.)

Complications may arise from all this. Lawyers may claim that communicating with their clients only through video calls is a violation of due process, says Patrice Fulcher of John Marshall Law School. The possibility of recording such conversations could also lead to the leaking of privileged information. "This whole situation exploits people on the inside and their families on the outside," Ms Fulcher says. "It's like we're serving the sentence with them," says the mother from Rhode Island.

Darren Krieghauser, an executive at HomewAV, a company which provides video services to 50 lockups, disagrees. He says inmates have managed to get married and see their newborn children using his company's terminals. He stresses that the question of whether or not to allow in-person visits "is completely up to each individual jail".

Often, though, officials prefer to stop them. First, they get nervous when prisoners leave their cells. Second, jails may re-

ceive a commission from the money made using off-site video calls (typically, 20% from Securus and 10% from JPay, another provider). However, sheriffs hoping to fill up county coffers this way may well be disappointed. Securus estimated that Hopkins County, Texas would scoop \$455,597 over five years from its 70% cut of earnings from both video visits and phone calls. But in the 2014 fiscal year the county pulled in less than half of what it had expected. Often the cost of installing the video equipment has to be recovered first, meaning that some chokeys will see no cash from video calls for years to come.

The scandal has attracted scant attention from politicians. In theory, the Federal Communications Commission could cap the cost of video calls, but it is up to state lawmakers to insist that prisoners are allowed to meet their loved ones in the flesh.

Still, even as one part of the criminal-justice system profits from misery, another abuse may be abating slightly. On January 16th Eric Holder, the soon-to-retire attorney-general, said he would curb joint federal-state "civil forfeiture" actions. This is when the police seize houses, cars, money and other assets that they suspect are the proceeds of crime, without having to prove it. Cash from auctioning these assets often goes to pad police budgets and pay for new kit—a clear conflict of interest, civil libertarians complain. More than 15,000 such seizures occurred in 2010, generating \$2.5 billion. Many states will continue to allow them, arguing that they are a useful tool for hobbling drug dealers. ■

## Mens rea

## What were you thinking?

WASHINGTON, DC

As the criminal code expands, intent is often ignored

**B**OBMY UNSER, a former car racer, was snowmobiling with a friend in Colorado when a blizzard sent them off course. After their vehicles broke down the two men spent a night in the wilderness, nearly freezing to death. They survived, but two weeks later the Forest Service charged Mr Unser with operating a motorised vehicle inside a protected area, a federal crime. "I got lost," said Mr Unser. "People shouldn't be prosecuted for something they have no control over." A judge disagreed, finding him guilty.

Under the common-law system that America inherited from England, a person performing a prohibited act (*actus reus*) must also possess a guilty mind (*mens rea*) in order to be convicted of a crime. In other words, intent matters. In keeping with this ►►



▶ tradition, many states differentiate between criminal behaviour that is purposeful, negligent or something in between. But things have got fuzzy lately. New criminal laws often lack intent requirements—sometimes on purpose, often by mistake—and thus ensnare people, like Mr Unser, who inadvertently fall foul of them. Inconsistent courts have added to the muddle.

In an effort to sort things out, Ohio's state legislature now requires greater precision when its members draw up new statutes. At the end of last year John Kasich, the governor, signed a first-of-its-kind law that requires new crimes to specify a threshold level of intent, or be declared void. So, for example, if legislators want an action to be criminal regardless of intent, they must state that in the law. Where the existing code is unclear, the threshold for guilt becomes "reckless" behaviour. The bill passed with unanimous support.

Most states, though, are ignoring the problem, even as a flood of new laws means more will be unwittingly broken. Take Michigan, where a bill similar to Ohio's failed last year. Lawmakers there create, on average, 45 new crimes each year, according to the Manhattan Institute, a think-tank. The state now has over 3,000 crimes, many of which lack intent requirements. The penal code ensnares people like Lisa Snyder, who was accused of running illegal day care after watching over her neighbours' children as they waited for the school bus. (A legislative fix helped her avoid prosecution.)

### Guilty mind? Never mind

At the federal level, Justice Antonin Scalia on the Supreme Court has lamented the increasing volume of "fuzzy, leave-the-details-to-be-sorted-out-by-the-courts legislation". Federal statutes contain some 4,500 crimes, and there are thousands more in the federal regulatory code. In 2009 the Heritage Foundation, a think-tank, and the National Association of Criminal Defence Lawyers (NACDL) found that two-thirds of the non-violent criminal offences enacted by the 109th Congress (which sat from 2005-06) lacked an adequate intent requirement. A rule change that lets the House Judiciary Committee review all new federal criminal laws is intended to address these problems.

Business has often been the victim of Congress's shoddy lawmaking. According to the NACDL, most crimes created by the Wall Street Reform and Consumer Protection Act, better known as Dodd-Frank, fail to account for intent. But ordinary citizens are also finding it hard to obey poorly-written federal laws. In his book "Three Felonies a Day" Harvey Silverglate, a lawyer, estimates that the average professional unknowingly commits several crimes daily. The erosion of *mens rea* requirements makes that a little less amusing. ■

### Catching spies

## James Bond's body language

SANTA BARBARA

### How to spot a spook

WHICH of the foreign diplomats in your country are spies? Which of your spies is a double agent? And which foreign leaders are planning to bomb their neighbours? All governments strive to answer such questions. American spooks think studying body language may help.

Spooks are seldom as easy to spot as Leslie Nielsen in "Spy Hard" (pictured). A diplomat who doubles as a spy will typically become agitated when he stops doing humdrum work and switches to the secret stuff, says Joe Navarro, a former FBI man. A skilled counterintelligence agent can detect the resulting changes in body movement, he says. People hiding something important unconsciously modify their dress, facial expressions, gestures and gait. They also change the way they smoke and check their watches, and how close they stand to shop windows. Mr Navarro refuses to be more specific because "we're still using" these tricks.

One success of the FBI's Behavioural Analysis Programme became public in 1999, after agents trained by Mr Navarro noticed the curious non-verbal cues of a Russian diplomat. A probe led to the discovery of a bug at the State Department. Nearly all federal security agencies now study body language, says Mr Navarro.

For example, since 2009 a Pentagon think-tank called the Office of Net Assessment has spent roughly \$300,000 a year on interpreting the body language of foreign leaders, says Valerie Henderson, a

spokeswoman. The Body Leads Project has subjected Osama bin Laden and a dozen leaders of potentially hostile nations to what it calls "movement-pattern analysis".

It takes a good 20 hours to understand 30 minutes of video, says Martha Davis, a former consultant to an American defence contractor. It is not as simple as seeing that someone is fidgeting and concluding that he is lying. Rather, the trick is to spot statements that deserve extra scrutiny, such as a denial made while shaking one's head a moment longer than usual, she says.

Critics caution that movements can be rehearsed to mislead. But involuntary "micro-expressions"—which may last no longer than 1/25th of a second—often reveal concealed emotions, says Paul Ekman of the Paul Ekman Group, a body-language consultancy in California. His clients include the New York Police Department's counterterrorism division, intelligence agencies and special forces who may need, he says, to know whether the captured survivors of a firefight are telling the truth when interrogated. Each micro-expression's meaning isn't always clear, however. The face of a man about to detonate a suicide-belt resembles that of a man who fears he has left home with the stove on, Mr Ekman says.

Context, therefore, is important. Consider the body movements of Vladimir Putin in late February as Russia conspired to snatch Crimea from Ukraine. The Russian president's posture, eye movements and other non-verbal cues showed that he was feeling less confident than his swaggering speeches suggested, says Karen Bradley of the Laban/Bartenieff Institute of Movement Studies in Brooklyn. Mr Putin's poise improved as it became clear that the West would not stop him.

Other governments are interested in body language, too. In an article in an Israeli magazine in 1979 Amatzia Baram wrote that Saddam Hussein's body language revealed that he hated Israel only somewhat, but hated Iran enough to invade it. Eleven months later Saddam's tanks rolled into Iran. Israeli military intelligence promptly hired Mr Baram, and he is now at the University of Haifa. He also advised the American army after Saddam's capture.

America has spent \$900m since 2007 trying to read the body language of passengers in airports. This is a waste of money, says Ms Davis: a few seconds of observation is not enough, and the screeners are hopelessly undertrained. Done properly, however, and focused on the kind of people most likely to have interesting secrets, body-language analysis offers juicy rewards. Allan Pease, an Australian consultant, says that at least three Russian government agencies pay his firm to decipher the body movements of Western leaders such as Barack Obama, David Cameron and Angela Merkel. ■



Most disguises are less obvious





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## Disability insurance

## Not working

WASHINGTON, DC

**Many disabled people can work. Washington prevents them, at ruinous cost**

FOR years, Doug, who lives in Binghamton, New York, suffered from bipolar disorder. In 2003 he enrolled in the federal disability insurance (DI) programme. With his illness now properly treated, he has been looking for work since 2013, without much luck. Because he worked full-time in a shop a decade ago, he would lose his disability benefits if he returned to full-time work now. He worries that he couldn't handle it, and would end up without a job or benefits. So he is hunting for part-time work that won't overtax him, and will let him keep his benefits.

His dilemma is about to get even trickier. DI, on which he depends, is fast running out of money. In the past quarter-century the share of working-age Americans on disability has doubled, to 5% (see chart). Some 11m Americans—9m workers plus their dependants—now receive benefits, nearly as many as work in manufacturing. The result is that DI now pays out far more in benefits than it receives in payroll tax. Its trust fund will run dry by the end of 2016.

When danger-point has been reached in previous years, money has been shifted to DI from payroll tax or the Social Security trust fund (which is meant to cover public pensions); but a rule passed this month by the House of Representatives says this cannot be done any more without reform. Republicans say this will force Congress to grapple with the problem. Maybe.

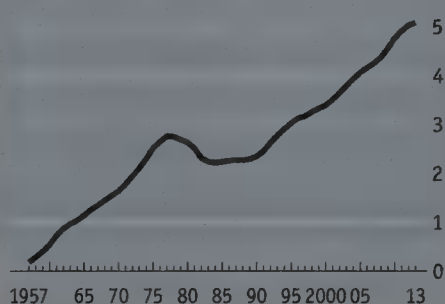
The programme owes its dire state, in part, to the same demographic forces undermining Social Security and Medicare. Baby-boomers who haven't yet retired are now at the age when they are most likely to become disabled. Their numbers have been swollen by the entry of more women to the workforce. And a gradually rising retirement age means beneficiaries collect disability payments longer before they switch to a pension.

But demography explains only a bit more than half the rise in the rolls since 1980, according to the Congressional Budget Office. The rest is because workers of any age or sex are now much more likely to qualify. Americans are no sicker than before. As David Autor of MIT and Mark Duggan of Stanford note, the number of 40- to 59-year-olds reporting any kind of disability has remained stable at about 10%. The health of older workers has improved.

However, in 1984 the eligibility criteria were changed. It is now easier to qualify with hard-to-verify ailments, such as stress

**A one-way ratchet**

Population aged 25–64 on Social Security Disability Insurance, % of total



Sources: Mark Duggan, Stanford University; David Autor, MIT

and back pain. Meanwhile, wage stagnation among the low-skilled makes disability benefits—which come with automatic annual increases and health insurance—more appealing, especially during recessions. One study found that ten years after starting on disability benefits, less than 4% of recipients had returned to work.

Some people are ripping off the programme. Last year New York City prosecutors charged 134 people for defrauding DI of about \$30m. Applicants, many of them former police officers or firemen, were coached in how to fake psychiatric illnesses such as depression or anxiety. Many were plainly not disabled; one flew a helicopter, another rode a jet-ski and one taught martial arts. But fraud is only a small part of the problem. DI's whole design is antiquated. It presumes that people, once disabled, cannot work. If they do, they usually lose their benefits. Yet lots of people with disabilities can work: wheelchairs did not stop FDR from becoming president or Greg Abbott (pictured) from becoming

governor of Texas.

Since 1999 the federal government has encouraged experiments to get beneficiaries back to work. Recipients can generally work full-time for up to a year, or part-time indefinitely, without losing their benefits. Randy Cook, who administers one such effort for a state-county agency in Binghamton, says many don't know that, so they are reluctant even to try.


Matthew, a builder in New York, went on disability after a car accident left him seriously injured. It was six years before he felt able to work again, but his first efforts to do so were half-hearted. "You get out of the [habit] when you're sitting at home, and the most you have to look forward to is 'The Price is Right' coming on at 11 in the morning," he says. "Even though you didn't make a lot of money it was easy to sit there, on the couch, collect a cheque, go to doctor's appointments. I might read the classifieds and see something that interested me, and never act on it. But I was fed up with it." Eventually Matthew met Mr Cook, who told him how to work without losing benefits, and to use acquaintances to look for jobs. In 2011 he found full-time work as an electrician.

Doug, who is also a client of Mr Cook's, has been less lucky. He applies almost every day for jobs online, but has had few interviews and, so far, no offers. "One of my major fears at this point is that because I've been out of work for so long that I'm unemployable. Where I live, there are a lot of job seekers and not a lot of jobs to go around."

Fixing DI will not be easy. Pilot projects which allow people to keep more of their benefits have increased the number working, but not by enough to save much money, reckons Dave Stapleton of Mathematica, a consultancy. A more promising approach is to staunch the flow of people entering the programme by toughening eligibility criteria. Several European countries have tried this. The Netherlands in 1994 and 2002 required employers to pay disability benefits for up to two years, a spur to rehabilitating the employee as soon as possible. To receive long-term state benefits thereafter, beneficiaries must document their efforts to return to work. Sweden has restricted eligibility to those who can't do any job. In America, Mr Autor and Mr Duggan suggest expanding private disability cover, thus giving employers an incentive to keep workers working and speeding the return of the disabled.

Such reforms, though, would take years to show results. In all likelihood, a long-lasting fix to DI may require fixing Social Security as well, by restricting benefits for higher-paid workers, indexing annual benefit increases less generously, or raising the payroll tax. All are political poison. So although there will be much talk of fixing disability in the year to come, little is likely to get done. ■





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# Lexington | Hugging the Saudi floggers

America should reconsider its cosy relationship with Saudi Arabia



ON THE way back from carving up the world at the Yalta conference in 1945, Franklin Roosevelt made an unexpected stop. On board the USS Quincy, moored in Egypt's Great Bitter Lake, the president held a long meeting with Ibn Saud, the first Saudi monarch and father of the 45 sons (nobody seems to have bothered to count the daughters) who make the kingdom's succession so operatic. Ibn Saud slaughtered a goat on the deck of the warship, sealing a pact that makes his kingdom America's oldest continuous ally in the region. It is also the most troubling one.

On January 9th Raif Badawi, a blogger, received the first of his 1,000 lashes for taking Thomas Paine's view of the "adulterous connection between church and state". Mr Badawi has also been sentenced to a decade in prison. Three days later a woman accused of murder was dragged through the streets of Mecca and beheaded with a sword. Though America disapproves of this sort of thing, it does not let it upset relations. Government delegations to the kingdom are usually lots of men in military uniform and one official from the State Department, whose job is to say that it would be nice if women could drive.

Scott Fitzgerald wrote that the ability to hold two opposing ideas in mind at the same time is the sign of a first-rate intelligence. Something similar applies in foreign policy. Ford Fraker, a former ambassador to Saudi Arabia, describes the alliance as "a long-term marriage founded on fundamental interests and principles". Those interests have shifted a little over time. Now they could be summarised as oil, counter-terrorism and stability. Like diamond earrings on an anniversary, weapons and money have been exchanged throughout as tokens of esteem. Less than a year after telling an audience in Cairo that America "must never alter or forget our principles", Barack Obama performed a full Fitzgerald, signing off on one of the largest arms deals with the kingdom yet, an order now being fulfilled by American manufacturers.

Senator John McCain, just back from a trip to the kingdom, says that the country feels let down by America's reluctance to punish Bashar Assad. "They had planes on the runway ready to go," he says. "They learned it was not going to happen from watching CNN." The Saudis, he says, are worried about expanding Iranian influence in the region—more so than they are about Islamic State (IS). This disagreement, and the recent hospitalisa-

tion of the 90-year-old king, makes it a good time to consider how America should treat the kingdom in future.

The high point of the relationship came during the presidency of Ronald Reagan, says Bilal Saab of the Atlantic Council, a think-tank. Memories of two Arab oil embargoes at a time of flat domestic oil production, as well as shared hostility to the Soviet Union, drew the countries close. There followed a blip after 9/11, when 15 of the 19 hijackers turned out to be Saudis. Al-Qaeda attacks in Saudi Arabia between 2003 and 2005 brought the countries closer together again. Though they may dent America's idea of itself as a champion of liberty, government policy is that good relations are worth it. That may have been true in the Gipper's day, but the argument is getting harder to make.

Oil is one reason. America may be the world's biggest producer, but because consumption still exceeds what it pumps it must still shop on the world market. This does not make it dependent on Saudi Arabia, though. Oil is fungible: lousy relations with Russia, the second-biggest producer, do not threaten America's economy. As the owner of the biggest reserves, which are also very cheap to extract, Saudi Arabia is the crucial swing producer. But America's shale technology has put a ceiling on the oil price, and its economy is less oil-intensive than three decades ago.

Nor is the argument for keeping close for intelligence-sharing purposes as straightforward as it seems. Salafi Muslim terrorists, who draw much of their inspiration from Saudi imams, are a big threat to America. The pact between the House of Saud and the country's clerics has long involved bankrolling Salafi imams to preach loyalty to the king; the money that sloshes through Salafi mosques undermines more moderate strains of Islam all around the world. The black-robed fighters of IS rely on Saudi jurisprudence and books to impose their preferred version of Islamic law. Their fondness for public beheadings is one result of this. Intelligence co-operation may be valuable, but its main task is tracking threats that have been subsidised by the Saudis themselves.

That leaves the argument that the House of Saud must be supported because it is stable. The alternative could be much worse: the thought of something like IS controlling the world's largest oil reserves is terrifying. Also, if America were to pull back from the Gulf, it is a fair bet that China would sooner or later replace it.

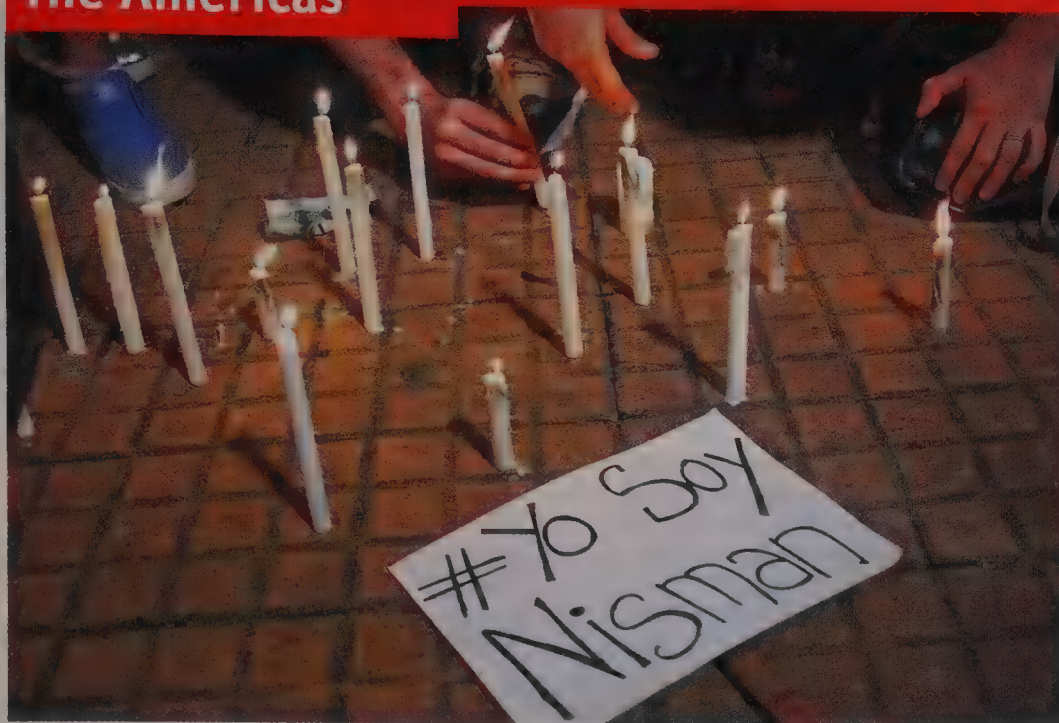
Some say that there is no alternative to the House of Saud. "This is a society that has the government they want," says Ambassador Fraker. "They are comfortable with what they have." If the regime is as secure as it seems, however, why should America abandon its basic values in the name of keeping it in place?

## Free to scream

Strip these things away and what's left is the arms sales. These at least have the virtue of being nakedly self-interested. Selling weapons is a big part of American diplomacy in the kingdom. A recent ambassador worked for Raytheon, the world's biggest producer of guided missiles, before he was appointed. It is also popular in Congress: the defence business is adept at scattering production around as many districts as possible.

Yet this has a cost. Being a superpower means having relations with lots of unsavoury regimes, yet America need not be so eager to put principle aside when dealing with its old ally. "Failure to speak to the broader aspirations of ordinary people will only feed the suspicion that has festered for years that the United States pursues our interests at their expense," as Mr Obama once put it. Between lashes, Mr Badawi no doubt agrees. ■





## Justice in Argentina

## The president and the prosecutor

BUENOS AIRES

**A tragic turn to a terror investigation will test the country's institutions**

THE slogan “Yo soy Nisman” (“I am Nisman”) appeared first as a Twitter hashtag and then on placards held aloft this week by demonstrators outside the residence of Argentina’s president, Cristina Fernández de Kirchner. They demanded “justice” for Alberto Nisman, a federal prosecutor who died from a gunshot on January 18th. The protesters suspect foul play. Mr Nisman died just hours before he was due to lay out before a congressional committee evidence for his accusation that Ms Fernández had tried to obstruct the investigation of Argentina’s worst terrorist act, the bombing of a Jewish centre in 1994.

Yet the cause of Mr Nisman’s violent death is not entirely clear. Perhaps, as the demonstrators believe, he was killed by forces intent on stopping his inquiry into a government conspiracy to cover up responsibility for the bombing. Or perhaps the truth is something else entirely.

What is indisputable, though, is that no one has yet been convicted for the bombing in Buenos Aires, in which 86 people (including the terrorist) died and hundreds were injured. Argentina’s Jewish community, the world’s seventh-largest, has long believed that Iran planned the attack and that Hizbullah, a Lebanon-based Shia militia-cum-political party, carried it out. That view is seconded by the state of Israel. Argentina has issued arrest warrants for Iranian officials thought to have masterminded the massacre.

The allegations by Mr Nisman, the chief

investigator of the bombing, were sensational. In a 300-page document filed with a court on January 14th, he claimed that Ms Fernández, the foreign minister, Héctor Timerman, and others had opened secret negotiations with Iran to absolve the Iranian suspects in return for a deal under which Argentina could swap grain for badly needed oil. One fruit of those talks, Mr Nisman said, was the “truth commission” that Argentina and Iran agreed to set up in 2013, which infuriated the Jewish community. For reasons that are unclear, the proposed oil-for-exoneration deal fell apart.

Ms Fernández’s spokesman dismissed the prosecutor’s allegations as “ridiculous”, and Mr Timerman denied them. But before Mr Nisman had a chance to present them in Congress he was found dead in his bathroom, beside a .22-calibre pistol and a bullet casing. Papers related to his congressional meeting were unfurled on his desk.

The front door to his apartment had been locked from the inside. The investigating prosecutor said that “no other person” had been involved in the shooting, but did not rule out the possibility of “induced suicide”. Associates say he feared for his life but showed no signs of wanting to kill himself. No suicide note was found.

What matters now is that his death is properly investigated and that Argentines believe the results, whatever they may be. On both counts there are reasons for doubt. According to a recent poll by Latino-barómetro, only a third of Argentines have

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any confidence in the police force and the justice system. This cynicism is mostly justified, says Álvaro Herrero of the Laboratory for Public Policies, a think-tank. Argentina’s police and judiciary are “passable” at solving simple crimes, he says. “But when power—political or economic—is involved, their efficiency plummets.” Corruption cases against senior politicians drag on for years without a verdict.

Ms Fernández has been trying to appoint loyalists as judges and prosecutors. In December she replaced the top two officials of the intelligence service, which had helped Mr Nisman, with people loyal to her. That has fed suspicions of presidential meddling in the investigation. Mr Herrero thinks it “very unlikely that we’ll get the truth in this case.”

Argentina’s Jewish community has held demonstrations on anniversaries of the bombing to demand the trial and punishment of the perpetrators. The thousands now in cities across the country represent a broader group, akin to the “pot bangers” who thronged the streets in recent years to protest against corruption and rising prices. If it turns out that Mr Nisman was murdered to stop his investigation the hunt for culprits could lead to social and political chaos, says Sergio Berensztein, a political pundit. The implications of suicide, while troubling, are less explosive.

Unsurprisingly, Ms Fernández eagerly endorsed the tentative finding that Mr Nisman had killed himself. “What was it that brought a person to make the terrible decision to take their own life?” she wondered in a rambling Facebook post. She has ordered the Argentine intelligence agency to declassify documents related to the alleged cover-up. This is welcome. It will take more transparency still to persuade her fellow citizens that Mr Nisman died by his own hand. ■





## Venezuela

## Empty shelves and rhetoric

CARACAS

**The government offers no solutions to a mounting economic crisis**

THE queue is perhaps a thousand people long. It snakes around the dusty, rubbish-strewn back lot of a giant supermarket in the heart of Caracas, Venezuela's capital. The store is the flagship of the government-run Bicentenario chain, part of a project started by President Hugo Chávez, who died in 2013, and continued by his successor, Nicolás Maduro, to seize control of the production, import and distribution of food. Never again, they swore, would opponents of the government be able to limit access to food, as they did during a business-led strike in 2002-03. Instead, it is the regime's hare-brained policies that are plucking food from citizens' mouths.

"I came here for milk," says a young mother from El Valle, a working-class district a few kilometres to the south-west. "In El Valle, there's nothing." She is carrying a tiny baby, while her four-year-old daughter helps with the modest purchases she has managed to make. Today the Bicentenario has sugar, maize flour, chicken and toilet paper at giveaway, government-controlled prices—but no milk. It is 9.30am and customers who began queuing at six o'clock are just emerging. Hundreds more wait outside a narrow gate in the 3-metre-high railings around the lot. Uniformed police keep order; most customers seem resigned rather than belligerent.

But the shortages are undermining support for the autocratic regime's "21st-century socialist" experiment, especially among the poor, its intended beneficiaries.

As queues lengthen across the country, there have been protests and some looting and violence. Fights break out, the strong snatch shopping from the weak and shots have reportedly been fired on occasion. Supermarkets have banned customers from photographing empty shelves, presumably under government pressure. Police have arrested journalists and charged them with disturbing the peace as they tried to report on food shortages. Several state governors have forbidden queuing overnight, perhaps sensing that it looks more shameful than when it happens during daylight. Government stores limit customers to shopping one day a week, assigning the day according to the last number of their identity cards.

The government insists it is the victim of "economic warfare" waged by the opposition. According to one official, the children of the rich are "infiltrating people into the queues" to cause trouble. The real source of trouble, private-sector economists agree, is price and exchange controls imposed by the government, along with nationalisations of food processing and farmland. The diving price of oil, virtually Venezuela's only export, means that the government can no longer import its way out of trouble. Earnings of foreign exchange are expected to drop by \$35 billion this year, from \$65 billion in 2014.

With opinion polls indicating that more than 80% of Venezuelans blame the president for the situation, the opposition Democratic Unity (MUD) alliance senses an opportunity. Last year its former presidential candidate, Henrique Capriles, opposed street protests led by a rival MUD faction, which left 43 people dead. He argued for waiting until the full effects of the crisis were felt by the poorest communities, where support for the government has been strongest.

On January 14th Mr Capriles called a press conference to say that these differences had been overcome. On January 24th the MUD will stage a mass "empty pots" rally against the government. Divisions within the opposition are one reason why Venezuela's "Bolivarian" regime has held on to power since 1999. The signs of greater unity suggest that the opposition may begin to pose a more serious challenge, starting with legislative elections this year.

After spending much of January on a trip to China, Russia and the Middle East, Mr Maduro has returned defiant. Despite having failed to persuade OPEC leaders to act in support of the oil price, and with little or no fresh money from China to pay the bills, the president insists that the solution is more revolution. He announced that food distributors would be given an ultimatum: fix the supply problem or face "the full weight of the law". For the umpteenth time he promised to announce eco-

nomical measures to alleviate the crisis. His annual speech before the National Assembly on January 21st (a day later than planned) was characteristically long on rhetoric and short on specifics.

The hardships of daily life are fraying Venezuelans' patience. Catholic bishops, never friendly to the regime, published an unusually hard-hitting pastoral letter this month that laid the blame for the crisis squarely on the "totalitarian and centralist system". Its architects may be powerless to prevent its collapse. ■

## United States-Canada relations

## My way or the highway

VANCOUVER

**A standoff on the sea route from Alaska to the lower 48**

THE United States' Alaska Marine Highway is not really a highway. It is a 3,500-mile (5,600km) chain of ports from Alaska's Aleutian Islands to Bellingham, in Washington state. Some 310,000 passengers, many of them tourists, make at least part of the ferry journey every year. It was created to link Alaska's coastal communities to each other and to the lower 48 states, but a bit of it sits on Canadian soil, at Prince Rupert, British Columbia. From this dual-national identity, a trade spat has sprung.

The state of Alaska first leased the terminal in 1963, and in 2013 paid the Canadians \$3.3m for another 50 years. But now a row has broken out between Canada and the United States over who will win contracts to replace the terminal's run-down moorings, bridges and vehicle ramp. No one disputes that the port is Canadian, but does American law apply?

The state of Alaska, which administers the highway, had planned to award the contract for the \$10m-20m project to a British Columbian firm. Hiring anyone else in that remote corner of the country makes little sense. But under the provisions of the ►►





United States' "Buy America" law, the contractors must use steel and other materials from suppliers that employ Americans. And that has thrown an American-made spanner (ie, wrench) into the works.

The mercantilist rule helps nobody. Hauling the steel up to Prince Rupert and paying for it with strong American dollars will make the project more expensive for the United States' Federal Highway Administration, which is footing most of the bill. Canadian firms are seething at the loss of potential business. "We're not advocating a Buy Canada policy, but we want to be able to compete", says Ron Watkins of the

Canadian Steel Producers Association.

The Buy America legislation, a provision of a 1982 law governing federal spending on transport projects, prompted firms such as Germany's Siemens and France's Alstom to set up production in the United States. When the North American Free-Trade Agreement eliminated most barriers in 1994, Buy America was allowed to stand. It is one of the few things on which Democrats, Republicans and trade unions agree, so it is unlikely to go away.

Alaska's governor, Bill Walker, has the power to waive the act's provisions for the rebuilding of the terminal. He decided not

to use it. Canada reacted sharply. On January 19th its government invoked a seldom-used sanctions law to bar any company working on the project from complying with the requirement to use American steel. The "application of protectionist Buy America provisions on Canadian soil is unacceptable and an affront to Canadian sovereignty," fumed the trade minister, Ed Fast. So now contractors may not rebuild Prince Rupert either if they do accede to Buy America, or if they don't. Alaska has put the project on hold "for the time being". There is no telling which ferry will swerve first. ■

## Bello The Mexican murass

### A president who doesn't get that he doesn't get it

IN A new year message Mexico's president, Enrique Peña Nieto, promised to work to "liberate" his country from crime, corruption and impunity. His cabinet has duly set these as its priorities. The message is the right one. But unfortunately for Mr Peña, Mexicans are increasingly cynical about the messenger.

Mexico is still seething over the government's leaden response to the kidnap in September of 43 students by municipal police in the south-western state of Guerrero and their apparent murder by drug traffickers. The investigation of the case seems to have stalled. Mr Peña's main policy response to the massacre is a proposed constitutional amendment to abolish municipal police forces. But Congress may not approve it, not least because some are less rotten than the state forces, which would take their place.

In the government's defence, the rule of law cannot be created in Mexico overnight. It will take years, perhaps decades, to clean up and strengthen the country's police. But his critics believe Mr Peña is dodging the most important task: to punish corrupt political bosses who are complicit in organised crime. And the government itself is now stained by scandal.

The latest embarrassment, reported this week in the *Wall Street Journal*, is that in 2005 Mr Peña bought a house from a small builder who has won a slew of contracts from his administration. This follows the revelation that Luis Videgaray, his finance minister, bought a \$500,000 house at a fashionable golf club with a mortgage from the vendor, a company owned by Juan Armando Hinojosa. The businessman has received much work from the federal government and previously from the state of Mexico when Mr Peña was its governor and Mr Videgaray was finance secretary.



This confirmed the close links between the administration and Grupo Higa, Mr Hinojosa's business empire. In November the government abruptly cancelled a \$3.7 billion contract for a high-speed train awarded to a consortium including Grupo Higa. Days later it emerged that the president's palatial private home had been bought with a large mortgage granted to the First Lady by the group.

Both Mr Peña and Mr Videgaray insist that they have done nothing illegal. They are missing the point. In modern democracies, whose ranks Mexico aspires to join, the kind of mutual back-scratching they appear to have engaged in with Grupo Higa is seen as unacceptable behaviour.

If they are serious about tackling corruption and conflicts of interest, Mexico's political leaders could look to Brazil. Petrobras, Brazil's state-controlled oil company, is embroiled in a much bigger scandal involving kickbacks of perhaps \$4 billion over the past decade. Prosecutors believe much of the money went to the ruling Workers' Party and its governing allies. The president, Dilma Rousseff, chaired the Petrobras board for much of this period.

Thanks to fiercely independent prosecutors and courts, and a tough new anti-bribery law, Brazilians can be confident that the wrongdoing at Petrobras will be investigated and punished—even were the trail to lead to Ms Rousseff herself. In 1992 a Brazilian president was impeached for corruption; more recently, several ministers have been forced to resign over dodgy contracts or unethical links to private businesses. Dozens of managers of construction firms under contract to Petrobras face criminal charges.

For such things to become thinkable in Mexico, several changes are needed. Proposals for an independent prosecutor's office and anti-corruption agency should be fast-tracked (depressingly, Mr Peña's supporters want the latter under government control). The second missing element is political accountability. Nobody has taken responsibility and resigned over the security failings, the dodgy train contract or the conflicts of interest. Nobody has barred Grupo Higa from government contracts while it is independently investigated, if only to establish that it is blameless.

"They don't get that they don't get it," says a former senior official. But Mexicans do get it. Mr Peña's approval rating has fallen to 40%, close to the lowest-ever for a Mexican president.

His bold economic reforms may yet bring political reward. The opposition's splits may help him win a congressional election in June. But the past few months have undermined the authority he used to secure the reforms. And with polls suggesting that turnout in the election will be dismal, the main beneficiary of the cynicism the president is engendering may be Andrés Manuel López Obrador, a messianic populist who has twice almost won the presidency. Mexico deserves better.



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Pakistan after the Peshawar school massacre

## The man with a plan

ISLAMABAD

The army is back in the country's driving seat

IT WAS only fitting that Pakistan's leader should be there in person to welcome pupils returning to the Army Public School in Peshawar on a chilly mid-January morning. The slaughter that took place at the school on December 16th, when nine Pakistani Taliban suicide-attackers killed 150 people, 132 of them children, was an act of terror that has shaken Pakistan like nothing before—and heaven knows the country has endured enough atrocities. Yet the man waiting at the school gate was not the elected prime minister, Nawaz Sharif, nor even the country's figurehead president; rather, it was Mr Sharif's unrelated namesake, General Raheel Sharif (pictured above), head of the Pakistani army. It is a measure of how fast the army has moved to secure dominance as it propels Pakistan into its own war on terror.

General Sharif and his fellow officers argue that the school massacre has brought not just a reluctant political class but also the bulk of the country to recognise that Islamist militants pose a threat to Pakistan's very existence. Since he became army chief in late 2013, he has wanted to "take the bull by the horns" and crush the extremists. But Mr Sharif, the prime minister, as well as other leading politicians, notably Imran Khan, a former cricketer with his political base in Peshawar, were reluctant to counsel force.

Both men feared that going after militants would stir a hornet's nest. They were

also concerned that the public would not back a military campaign. (Widespread popular misunderstanding of the militant threat has been sown by decades of army support for so-called "good" militants restricting their atrocities to Afghanistan and India.) Mr Sharif and Mr Khan urged peace talks with Tehreek-e-Taliban Pakistan (TTP), the official name for the umbrella group loosely known as the Pakistani Taliban. They are vicious cousins of the Afghan Taliban.

The generals treated the peace process with impatience, correctly gauging that the TTP were not sincere. Last summer General Sharif launched an offensive against the militants, notably in North Waziristan in the tribal lands bordering Afghanistan. The Peshawar massacre, the generals argue, has now brought the nation behind the fight against militancy. Certainly, the number of ordinary Pakistanis who dare to be associated with calls to go against the Taliban has surged.

The army insists that the distinction between "good" and "bad" Taliban no longer exists. General Sharif has been making big claims for his war, particularly during recent trips to Washington, DC, and London, where in the grand tradition of the Pakistani army he has been seeking cash and helicopters from the West. He told his hosts that countless strikes in the tribal badlands have virtually destroyed the militants' training camps and that only a couple of ar-

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eas remain unsecured.

The claim is almost impossible to verify. One senior diplomat in Islamabad says it is a gross exaggeration, with insurgents still operating widely across the tribal areas. As for the distinction between "good" and "bad" Taliban, on January 22nd the government announced the banning of the Haqqani network, a brutal Afghan Taliban affiliate with historic links to the Pakistani army's spy agency. Before that, however, the group got help to move out of North Waziristan to safety before the military onslaught against it began.

Pressure has so far not been brought to bear on the wider Afghan Taliban movement, whose leadership resides in Quetta, Peshawar and other locations in Pakistan. But the state may be beginning to move against jihadist groups that focus their violence on India, such as Lashkar-e-Taiba, responsible for bloody attacks on Mumbai in 2008. On January 22nd the government surprised many by announcing that Lashkar's political wing, Jamaat-ud-Dawa, was also banned. Restrictions were slapped on its poisonous leader, Hafiz Saeed. A "national action plan" is now meant to block funding for unsavoury groups, counter hate speech and regulate religious schools.

Back on the north-western border, the Pakistani army will stand no chance of securing order without help from Afghanistan. That country's strained relations with Pakistan have improved dramatically since President Ashraf Ghani came to office in the autumn.

Unlike Hamid Karzai, his often difficult predecessor, Mr Ghani has worked hard to accommodate Pakistan, including by diverting forces to confront the TTP in the eastern province of Kunar. Afghan officials complain that Mr Ghani has yet to see anything in return for a policy that does not play well among a public that dislikes Paki- ►►



►stan. They want to see a sharp decline in violence as well as pressure exerted on the Afghan Taliban leadership in Pakistan to enter peace talks.

And, always, the army's dominance comes at a cost to civilian rule, never strong in Pakistan. The generals speak as if Mr Sharif, the prime minister, is a cipher in the country's affairs. That is not all the army's doing: in those areas where the civilian writ still runs, the results are underwhelming. Mr Sharif's government is made up of a coterie of allies and family members. It has not even managed to make political gains from the windfall of lower global oil prices, because of nationwide petrol shortages, a mess for which Pakistanis rightly blame the government.

Elsewhere, though, the army has taken over the government's powers—and even the judiciary's. Under pressure since the Peshawar attack, Mr Sharif has agreed to the abandonment of an informal morato-

rium on the death penalty for terrorist cases. Already several men languishing on death row have been executed. And the army has cajoled Parliament into voting for a constitutional amendment allowing, for the next two years, civilian terror suspects to be tried in military courts. Nine new courts will conduct trials on military bases, most likely in camera, with the aim of executing those found guilty within two weeks of sentencing. The new courts' backers argue that civilian judges, scared for their lives, are unwilling to convict members of terror groups. Yet oversight of the military courts will be absent.

The army's reinsertion into national affairs amounts, as one pro-democracy campaigner puts it, to a "postmodern coup". General Sharif's intentions after his war for Pakistan's survival remain unclear, perhaps even to himself. But many Pakistanis no doubt hope it will be a postmodern withdrawal back to barracks. ■

## India and America

# Come, meet Mum

DELHI

**Under Narendra Modi, India is readier to admit to a tilt towards America**

**A**DMIRE Barack Obama's endurance on January 26th, when he becomes the first American president to be guest of honour at India's annual Republic Day parade in Delhi. For two long hours he will inhale the capital's smog as he and India's prime minister, Narendra Modi, review a procession of military hardware, trick-motorcycle riders and troupes of dancers. A chilly winter morning on Rajpath, New Delhi's main ceremonial boulevard, can be an eternity.

Mr Obama is coming to India on a three-day trip to improve an already strong bond with the country's barrel-chested leader. He will become the only sitting American president to visit India twice, and he arrives barely four months after Mr Modi went to Washington. The two men also got together on the sidelines of an Asian summit in Myanmar in November.

So frequent are their encounters that underlings hardly have time to prepare substantial matters to discuss. (Speculation this time centres on a possible deal to lessen the potential liability American firms face if they invest in the nuclear-power industry—Indian law holds contractors liable for all costs.) Yet mere symbolism can be useful. Indeed, it may help banish memories of an awkward clash between the two countries last year, after police in New York clumsily arrested an Indian diplomat over the immigration status of her

Indian maid.

That incident aside, bilateral relations have steadily improved over the past 15 years, often against the opposition from older Indian diplomats who cling to a belief in non-alignment—isolationism mixed with leftist moralising. Younger ones, however, grasp what there is to gain by engaging with a country with so much capital, technology and trade potential to offer. Most Indians view America positively.

Mr Modi's recent predecessors forged

closer American relations. But they were wary both of China and of their own stuffy bureaucrats, and were shy of making a tilt to the West too explicit. The difference now, according to Tanvi Madan of the Brookings Institution, a think-tank in Washington, is that under Mr Modi India is at last taking America "home to meet Mum". Ms Madan emphasises the importance of the Indian diaspora in America (over 3m Indian-Americans, many of them rich, educated and influential in government, politics and business) and of tapping America to strengthen India's economy and military capacity.

Today India and America co-operate on intelligence (especially since terrorist attacks in Mumbai in 2008 killed 166, among them six Americans). The two share a certain mistrust of Pakistan, formerly a close American ally, and are alarmed at Islamist extremism there. Where India, the world's biggest arms importer, once turned to Russia as its traditional supplier of defence equipment, it now increasingly favours higher-tech gear offered by America, Israel and others. In November Russia sent its defence minister to Islamabad, Pakistan's capital, for the first time in over two decades, signalling that it might begin arms sales to Pakistan. So expect further Indian diversification. Mr Modi's hope is to have some American defence equipment made in India. But given that India caps foreign ownership of local defence firms at 49%, it is unclear how realistic that hope is.

Beyond defence, the two leaders share the idea of promoting India as capable, one day, of taking on bigger foreign roles. Rudra Chaudhuri, author of a recent book on how the two countries get on, sees "a serious shift" under Mr Modi in terms of a more active role for India abroad, beginning in its region. Indian strength would inevitably rest, first, on its economy expanding faster. That notion was boosted this week by the IMF, which forecast that In- ►

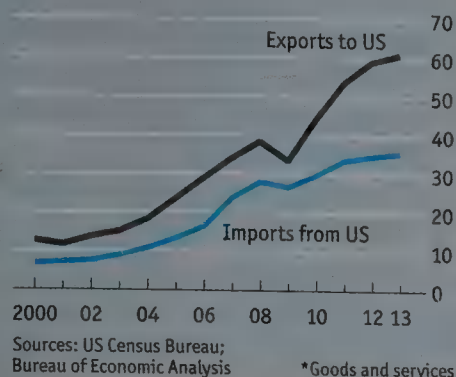


Obama and Modi: open friends



## The thickening ties

India's trade\* with the United States, \$bn



India's pace of growth will outstrip China's in 2016 (China remains much the larger economy).

Mr Chaudhuri points also to Mr Modi's personal rapport with other Asian leaders, notably Shinzo Abe and Tony Abbott, respectively prime ministers of Japan and Australia. Both countries are close allies of America. Mr Abe was last year's guest at the Republic Day parade. Now Mr Modi shows a keen desire to raise India's profile further, at a time when America is pushing for more co-operation among Asian democracies, partly in response to a more assertive China. Myanmar aside, Mr Modi has travelled abroad only to visit democratic countries since he became prime minister last year, and talks up democracy.

Instructive, too, is that relations are likely to flourish with Sri Lanka, ending years of strain, after voters there replaced an authoritarian government—with Indian spies lending a hand, according to reports. Even if that detail turns out not to be true, Indian diplomacy looks more active than for a long time. Not a bad moment for Mr Obama to drop in for a parade. ■

## Indonesian politics

### Jokowi's jinks

JAKARTA

For fans, the idol loses some of his shine

WHEN, earlier last year, it looked as though Joko Widodo would let slip the chance to become Indonesia's president, thousands of volunteers rallied round to propel him to election victory. They staged a giant rock concert in Jakarta, the capital, and campaigned ceaselessly to fend off a late challenge from the opposing candidate. But less than 100 days after Mr Joko, known to all as Jokowi, took his oath of office in October, these same volunteers are starting to turn against him.

On January 15th Jokowi's volunteers,

## Japan and jihad

### Sand storm

TOKYO

A remote archipelago struggles to remain apart from the war on terror

A TOUR of the Middle East by Shinzo Abe, Japan's prime minister, was knocked sideways by the news on January 20th that Islamic State (IS), the extreme jihadist group in Iraq and Syria, threatened to kill two Japanese hostages unless Japan quickly pays a ransom of \$200m. The sum demanded is equal to an amount Mr Abe had committed days before in Egypt to give to countries battling IS. As *The Economist* went to press, the outcome seemed uncertain.

Japan's heavy reliance on Middle Eastern oil and gas prompts a desire to foster stability in the region. How to handle the hostage crisis now poses Mr Abe's toughest foreign-policy challenge. He vowed to use all means to secure the two men's release. Yet paying a ransom would anger America, Japan's ally, while Japan has neither the skills nor, because of a pacifist constitution, the legal backing to mount a rescue mission itself. In any negotiations with IS, Japan must preserve the appearance of being a reliable partner against terrorism, says a government official, but should explore ways to free the hostages. In the past, Japan has paid ransoms.

The two captured men make an unlikely pair. Haruna Yukawa appears to be something of a lost soul who travelled to Syria to find himself. He joined rebels fighting IS, which captured him last summer. Kenji Goto is a seasoned journalist and documentary maker known

for his portrayals of the human anguish of war. If he approached IS with a view to securing Mr Yukawa's release, he will have done so with his eyes open.

As for Mr Abe, the crisis complicates his avowed mission to have Japan play a bigger part in the world (he is no fan of the pacifist constitution). To judge by social media, ordinary Japanese not only have sympathy for the hostages but also support Mr Abe's efforts to free them. But many Japanese also wish the troubles of the wider world would just go away. That hope has now got harder.



Goto, no stranger to war's anguish

rock stars from the election gig among them, marched to the Jakarta headquarters of the anti-corruption commission, the KPK, in protest against their president's candidate for police chief. Jokowi had proposed Budi Gunawan as his sole pick for the post, only for the KPK to name Mr Budi four days later as under suspicion of corruption. Jokowi refused to revoke the nomination. So, in an open letter, Jokowi volunteers reminded the president of his pledge to pick only clean candidates for office, and threatened to take to the streets if he let the appointment stand.

For six years Mr Budi served as an adviser to Megawati Sukarnoputri, a former president and still the leader of Jokowi's party, the Indonesian Democratic Party of Struggle, or PDI-P. Many suspect that Jokowi, in the Javanese way, was deferring to his patron by promoting Mr Budi, whose suspicious bank balance the authorities began to investigate back in

2010. Perhaps Jokowi hoped that parliament might veto Mr Budi's appointment, so that he would not have to. But the opposition-controlled legislature mischievously declared Mr Budi to be a fit person to lead the police.

Forced to choose between snubbing Ms Megawati or his own volunteers, Jokowi dithered again. In a televised address to the country on January 16th he said that he had "postponed" Mr Budi's appointment, but not "cancelled" it.

Jokowi, a former furniture salesman from outside the political establishment, has made some bold decisions since he took office, notably scrapping popular but profligate petrol subsidies on January 1st. But his indecision over Mr Budi's appointment is the first blot on his leadership. At the start of his five-year presidency, with many battles still to fight, he may need to remember that his true allies are his popular supporters. Ms Megawati, the daughter of Indonesia's founding president, en- ►►



► dorsed Jokowi only reluctantly as the PDI-P's presidential candidate. The party itself did little to support his campaign when it mattered most.

It is not only Jokowi's volunteers who are feeling let down, but, over a separate matter, countries that have applauded his rise. On January 17th six drug-traffickers, five of them foreign nationals from Brazil, Malawi, the Netherlands, Nigeria and Vietnam, were executed by firing squad after Jokowi turned down their appeals for clemency. Human-rights groups condemned the executions; Brazil and the Netherlands recalled their ambassadors. Elsewhere, Jokowi's policy of destroying vessels found illegally fishing in Indonesian waters has also caused concern among the country's neighbours. So, too, have statements from his advisers hinting at growing aloofness towards ASEAN, the ten-country Association of South-East Asian Nations, of which Indonesia is the most populous member.

Jokowi's predecessor, Susilo Bambang Yudhoyono, followed a "million friends,



How long for the magic touch?

zero enemies" governing philosophy, which in the end seemed little more than a screen for indecisiveness. Jokowi wishes to appear tougher. But standing up to the entrenched elites would be a better measure of that than executing drug mules. ■

## The South China Sea

# Oil on troubled waters

## Two case studies in a disputed sea

**T**WO Chinese oil companies show contrasting approaches in their attempts to operate in the South China Sea where, to the discomfort of its smaller neighbours, China's claims in disputed waters have grown increasingly assertive. One company's actions are adding to tensions in the area, while the other's may hint at a way to ease them.

Last July Brightoil, a company listed in Hong Kong with high-level political connections on the mainland, bought the exploration rights to 6.2m acres (2.5m hectares) of seabed from an American company, Harvest Natural Resources. The block, which the Chinese call Wan'an Bei 21 (WAB-21, part of an area known in English as the Vanguard Bank), has a controversial history. Although it lies more than 650 nautical miles (about 1,200km) from the Chinese coast and just 200 nautical miles from Vietnam, China asserts "historic rights" over the area. It lies near the south-western edge of the U-shaped "nine-dash line" that marks Beijing's ambiguous claim in the sea (see map).

China issued a licence to explore for oil in WAB-21 in 1992. That came as a shock, because it was the first time China had claimed resources in the South China Sea so far away from its own coast. When Chi-

nese vessels attempted to survey the block in 1994, Vietnam sent its navy to stop them. Vietnam then dispatched an oil rig to drill there, and it was China's turn to impose a blockade. Neither side was able to extract any oil.

In 1996 Benton Oil and Gas, the precursor of Harvest Natural Resources, bought the rights to WAB-21 for \$15m. Harvest was never able to develop the block. Instead, Vietnam drew up its own exploration blocks over the same area and awarded them to Talisman of Canada and Exxon-Mobil of America. China regards the move as a violation of its own claim. Four years ago Beijing organised a flotilla of fishing vessels to block and ensnare a seismic-survey vessel working for Talisman in the area. Talisman continued regardless, and has recently been drilling in a southern part of WAB-21, in a block the Vietnamese call 136/03.

Yet since Brightoil picked up the rights to WAB-21 (for just \$3m), the Chinese have muscled back in. In late October a Chinese craft, the *Hai Yang 4*, guarded by four escort vessels, spent two weeks conducting seismic surveys in the area. The Vietnamese authorities appear to have decided not to force a showdown, unlike earlier in the year when they sent dozens of vessels to

challenge a Chinese oil rig drilling off the Paracel Islands further north. Indeed, as the *Hai Yang 4* was surveying WAB-21, China was hosting the highest-level Vietnamese military delegation to visit Beijing in years. The visit was intended to repair the damage to bilateral relations caused by the oil-rig incident. Yet renewed surveying by China could strain relations again.

A different approach to finding oil in the South China Sea emerged late last year. In mid-November Fosun, a big, private Chinese conglomerate, bought a small Australian energy company called Roc. Perhaps unwittingly, it also bought into the South China Sea disputes. Among its many interests, Roc has a contract with Malaysia's state oil behemoth, Petronas, to develop fields off the coast of Sarawak. Crucially, though these fields, known as the Balai Cluster, lie within Malaysia's 200-nautical-mile exclusive economic zone, they are also inside China's claimed nine-dash line, whose legitimacy Malaysia contests. Assuming Fosun holds on to these interests, a Chinese company is in effect recognising Malaysia's claim in this area of the sea at the expense of the Chinese claim.

Both Brightoil and Fosun have powerful connections with China's political elite. Fosun's chairman, Guo Guangchang, is a member of the Chinese People's Political Consultative Conference (CPPCC), an advisory body controlled by the Communist Party. Brightoil's chairman, Sit Kwong-lam, also sits on the CPPCC and is vice-president of the state-dominated oil industry's trade body. His company seems to be acting as an arm of Chinese policymaking in the South China Sea, whereas Fosun seems to be acting against it. But by working with the Malaysian authorities rather than against the Vietnamese, Fosun appears much more likely than Brightoil actually to deliver oil to Chinese consumers. ■







## Urbanisation

## The great sprawl of China

LANGFANG

## How to fix Chinese cities

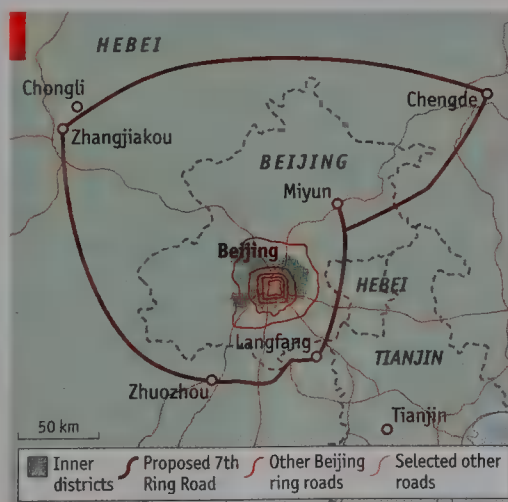
IN ANCIENT times, Beijing built towering city walls that helped to prevent undefendable sprawl. These days it builds ring roads, stretching built-up areas ever outwards. Near Langfang, a city halfway between the capital and its giant neighbour Tianjin, diggers dip their heads and cement mixers churn, paving the next circular expressway. When complete, the 900km (560-mile) Seventh Ring Road will surround Beijing at such a distance that most of it will run through the neighbouring province of Hebei, to which Langfang belongs, rather than the capital itself. Parts of it are 175km from Beijing's centre (see map).

The Seventh Ring Road (really the sixth, but for obscure reasons there is no First Ring Road) is emblematic of modern Chinese cities: giant, sprawling and dominated by cars. Even before it is completed in a year or two (and its use assessed), another, even longer, orbital is being plotted. Like many of China's infrastructure projects, the new road displays engineering prowess. The country's successes in urban planning are less evident.

Breakneck urban growth has propelled China's rise in the past three decades. Migration from the countryside has helped expand the urban population by 500m—the biggest movement of humanity the planet has seen in such a short time. Over half the population is now urban. Some live in the basements of apartment blocks, or in shacks built in courtyards. But Chi-

nese cities have mostly avoided the squalor of many developing-world ones.

The result of this urban growth is not just that China has many large cities—more than 100 of them have more than a million people—but that some are supersized. At the end of last year the government at last acknowledged the special nature of these, introducing the term “megacity” to describe those whose populations, including that of their satellite towns, exceed 10m. Of the 30 cities worldwide that match this definition, six are in China: Shanghai (23m), Beijing (19.5m), Chongqing (13m), Guangzhou (12m), Shenzhen (11m) and Tianjin (11m). A further ten Chinese cities contain 5m-10m people. At least one of these, Wuhan, will pass 10m within a decade.



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For daily analysis and debate on China, visit [Economist.com/china](http://Economist.com/china)

China depends on its cities for economic growth and innovation. But it is failing to make the most of its largest conurbations. Medium-sized agglomerations of 1.5m-6.5m are outperforming bigger ones in terms of environmental protection, economic development, efficient use of resources and the provision of welfare, says McKinsey, a consultancy. Residents are beginning to question whether their quality of life, which for many has improved by leaps and bounds, will continue to do so. The giant cities are polluted, pricey and congested. Average travel speed in Beijing is half that in New York or Singapore.

Most of China's cities share the legacy of a central-planning mindset in which all life and work was centred on a single “work unit”. Cities were “built as producer centres rather than consumer ones”, says Tom Miller, author of “China's Urban Billion”. Their planning focus was on industry; not commerce, services or even community. The work units are gone but the tradition of dehumanising architecture persists. Most new developments are built on giant blocks 400-800 metres long.

China has swapped its socialist dream for an American-style one of cars and sprawling suburbs. The number of cars has increased more than tenfold in the past decade, to 64m. The combination of superblocks and car-lust often adds up to a giant jam. Large blocks mean fewer roads to disperse traffic. Guidelines require a main urban road every 500 metres and an eight-lane road every kilometre. In the case of Beijing, a ring and radial system was also created, with the aim of providing speedy road access in and out of town, bypassing city traffic and linking satellite towns. Not a bad idea, except that workplaces have remained concentrated in the centre. The expressways funnel traffic into gridlock.

The ill-defined ownership rights of ►►



farmers have encouraged the sprawl. Officials can expropriate rural land easily and at little cost. Doing so is far cheaper than redeveloping existing urban areas. Industrial land is heavily subsidised, so factories have remained in urban areas rather than move to cheaper sites on city outskirts. The amount of land classified as urban has more than doubled since 2000—40% of new urbanites became so when cities engulfed their villages.

Sprawl has resulted in populations becoming more thinly spread. China's megacities are less dense than equivalents elsewhere in the world (see chart). Guangzhou could contain another 4m people if it was as packed as Seoul in South Korea; Shenzhen could be larger by 5m. Extending outward takes a toll: slow commutes from far-flung suburbs increase fuel consumption and cut productivity.

Massive spending on infrastructure has hugely improved connections within and between cities. Since 1992 China has spent 8.5% of its national income on infrastructure each year, far more than Europe and America (2.6%) or India (3.9%). Yet city residents still complain. Subways are often built as engineering projects, with stops at set distances, rather than where people want them to be, says Sean Chiao of Aecom, an infrastructure firm. Buses, metros and rail networks are poorly integrated because separate agencies manage them.

Planners often ignore the needs of 200m or more residents who have no urban *hukou*, the household registration certificate that is needed for access to public services. Cities therefore have inadequate hospitals, schools and affordable housing.

This year, however, the central government has started to downplay the importance of GDP growth in assessing the performance of local officials. That should free them to spend more money on making cities better places to live, rather than on laying concrete. Some cities now seek to limit car use. Beijing is mulling a congestion zone. To limit pollution and improve traffic flow, eight cities (including all megacities except Chongqing) cap the number of new licence-plates they issue. Several cities ban

some drivers one day a week. Metro systems are fast multiplying: Beijing alone opened four new lines with 41 new stops in December.

More could be done. Parking in city centres remains far too cheap, and laws should be enforced to curb a habit of parking on pavements or traffic islands. Buses could be made to use the central lanes of broad boulevards. Bicycle-use should be encour-

aged by reintroducing once ubiquitous cycle lanes.

The World Bank says that, at 54%, China's degree of urbanisation is still well below the 70% expected of a country with its current income level per person. The flood of migrants will continue; by 2030 Chinese cities will contain more than 1 billion people. A change of thinking will be needed to make them better places to live in. ■

## Skiing

# To the piste!

CHONGLI

To satisfy skiers, China is covering its arid hills with snow

THE provincial outpost of Chongli, 250km (150 miles) north-west of Beijing, has all the trappings of a proper ski town. There are hotels, restaurants, shops offering the latest gear, and even a street of bars for the après-ski set. Chongli's rapidly developing resorts may lack the striking vistas and the rich forest landscapes of the Alps or Rockies. But the scenery, if less grand, is nice enough. So is the skiing itself. Chongli's drawback is that, as in much of China's arid north, there is an acute shortage of water to make snow. But in their pursuit of prestige, government planners see that as little hindrance. Developing winter sports, say officials, is China's "dream".

Until the 1990s, winter sports in and around Beijing were largely confined to skating and, for a hardy few (mostly elderly men), swimming near-naked in pools cleared of ice. A lack of snow and, above all, of middle-class spenders, made skiing all but unthinkable. Now ski resorts abound on the hills near Beijing (the artificial snow is made with underground water) as well as across chillier and snowier regions. According to a Canadian study, the number of skiers in China grew from 10,000 in 1996 to 5m by 2010. The Chinese Ski Association believes there could now be 20m. Beijing is competing to host the winter Olympics in 2022. If it wins, Chongli will be one of the outlying venues.

Skiing remains too costly a pastime for ordinary folk. A day's lift-ticket and gear rental costs 500 yuan (\$80)—more than five days' wages for the average migrant worker. In downtown Beijing, Gao Yong says it is mostly "big bosses and children of the nouveau riche" who buy from his ski shop. They do not fret about the cost. "They sometimes bring friends and buy them a full set of ski equipment just so they can take them out for a day," Mr Gao says.

But the sport's elitism is no deterrent to China's Communist rulers. President Xi Jinping has expressed his "ardent



Freestyle medallists in 2022?

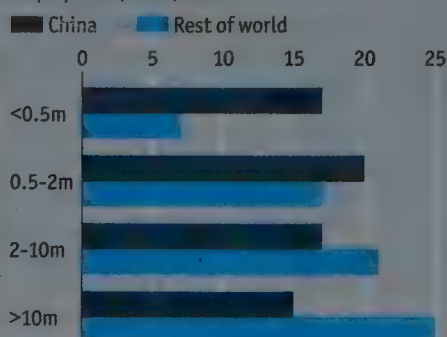
hope" that Beijing will win its bid (and thus become the first city ever to have hosted both the summer games, which it staged in 2008, and the winter event). Most other competitors have dropped out, mainly because of the cost, so Beijing has an excellent chance. The only other contestant is Almaty in Kazakhstan. The winner will be announced in July.

Chinese officials insist that enough artificial snow can be made in Chongli without affecting the lives of inhabitants. But it will not be easy in an area near the Gobi Desert. The government is spending nearly \$90m on water-diversion schemes to satisfy Olympic demand.

Some experts already grumble about the huge water-consumption of existing ski facilities around the capital (equal to the annual water-use of more than 40,000 residents, according to Hu Kanping, an environmentalist). Such concerns have prompted a crackdown on the opening of golf courses—another new pastime of the elite. But golf will resurface as an Olympic sport only at the games in Rio de Janeiro in 2016, after a lapse of 112 years. Golfing golds are not (yet) a government priority.

## Room to grow

Population density by size of city  
People per km<sup>2</sup>, latest, '000



Source: Demographia



## A large, festive balloon arrangement is the central focus. At the top is a large, round, silver-colored balloon with the words "Get Well Soon" written in a red, cursive font. Below it are two large, heart-shaped balloons. The left heart-shaped balloon is divided into four panels: the top panel shows a hospital room with a patient in bed; the bottom-left panel shows a person in a white lab coat attending to a patient; the bottom-right panel shows a person in a white lab coat standing next to a large medical monitor; the right panel shows a person in a white lab coat standing next to a large medical monitor. The right heart-shaped balloon is also divided into four panels: the top panel shows a person in a white lab coat standing next to a large medical monitor; the bottom-left panel shows a person in a white lab coat standing next to a large medical monitor; the bottom-right panel shows a person in a white lab coat standing next to a large medical monitor; the right panel shows a person in a white lab coat standing next to a large medical monitor. Below the balloons is a large, blue, rectangular gift box with a silver ribbon. The entire arrangement is set against a plain, light-colored background.

The right people to get  
the extraordinary done.



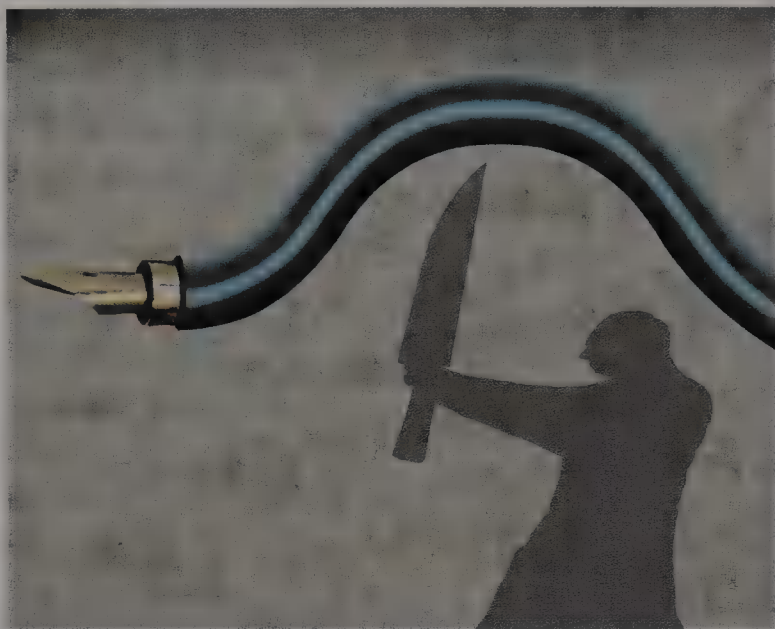
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# Banyan | Dodging peril

Instead of uniting China and the West, jihadist violence risks further dividing them



ONE foreign-policy issue on which, in theory, China and the West stand shoulder-to-shoulder is the fight against jihadist terrorism. When Chinese and Western leaders meet, their statements usually condemn terrorism “in all its forms” and pledge more co-operation in countering it. But reactions in China to the *Charlie Hebdo* atrocity in Paris and to recent successful counter-terrorism operations at home reveal a big gap in perceptions.

China criticised the Paris attacks unreservedly. But its press also blamed *Charlie Hebdo* for offending Muslims. The latest issue of another French magazine, *Fluide Glacial*, gave China a chance to show that it, too, is a victim of what *Global Times*, a Communist Party tabloid, calls “free-speech mania”. The magazine features a cartoon of a Frenchman pulling a rickshaw with a Chinese passenger, under the headline “Yellow Peril”. Not everyone, warned *Global Times*, is as “good-tempered” as China, whose officials loftily ignored the slur.

The West’s reactions to terrorism within China are seen as even more troubling. “Double standards in the fight against terror and acquiescence in religious extremism do no good to any party,” thundered *China Daily*, an official newspaper, this week. The paper was celebrating the busting of people-smuggling networks involved in helping ethnic-Uighur Muslims from China’s western region of Xinjiang flee the country, usually to Turkey and then, allegedly, to join extremists in Syria and elsewhere. In one incident last November, reported only this month, police in Shanghai arrested nine Uighurs who were trying to leave the country by air. Also detained were ten Turks and two Chinese citizens helping them—including with fake passports. Then this week, close to the border with Vietnam, two of five Uighurs trying to flee overland were shot dead; the others were captured.

The double standards *China Daily* detected were to portray such men not as terrorists but as “innocent, helpless members of an ethnic minority fleeing ‘suppression’ at home in pursuit of ‘freedom’.” By contrast, China depicts terrorist attacks blamed on Uighurs as fomented in part from abroad; and it wants to show that its own radicalised Uighurs are a global threat. Last month the Chinese press reported that 300 Chinese citizens were fighting with Islamic State in Syria and Iraq. According to the police, 352 people have been arrested in recent months for alleged in-

volvement in people-smuggling, along with 852 Uighurs trying to leave the country. Hundreds more who managed to cross the border were detained last year in Thailand and elsewhere.

Some Uighurs have certainly been guilty of terrorism, including an appalling massacre—using knives—at the railway station in Kunming in south-western China last March in which 29 people were killed and 143 injured. Many private citizens in China feel aggrieved that the West has offered scant sympathy for the loss of life. On Chinese microblogging sites, the worldwide outpouring of grief and solidarity in France and elsewhere for the dead in Paris have been taken as proof of Western hypocrisy and prejudice. Did Chinese lives matter less?

The comparison between the reaction in the West to the Kunming and Paris attacks—and the sense of Chinese victimhood it betrays—seems bizarre. The Kunming slaughter was far away and not covered live on television; the spread of the news abroad was further hampered by China’s restrictions on Twitter and Facebook, and other media; the Chinese government did not, as France’s did, encourage mass marches, inviting foreign leaders to join in; it was not immediately obvious to the outside world who the murderers were and why they had done it. And those who took part in the marches in France were doing so not just to oppose terrorism, but to support a principle: free speech.

But the microbloggers and *China Daily* are probably right that some in the West are blind to China’s terrorism problem. Many sympathise with the Uighurs, of whom even the law-abiding find it hard to leave China; so those fleeing are often seen as refugees from oppression. Even the 22 Uighurs detained by America at Guantánamo Bay were, upon release, scattered round the world rather than returned to China, lest their suffering at American hands be followed by persecution at home. By the same token, though, China is blind to the damage done by its own repressive policies. Ethnically and linguistically Turkic, Uighurs have long bridled at the influx of Han Chinese into Xinjiang. Sporadic revolts have been harshly put down. Curbs on religious activity have stoked further anger and fuelled the radicalism they were supposed to curb. Moderate Uighur intellectuals have been hounded and jailed, leaving space for extremist influences from Afghanistan, with which Xinjiang shares a sliver of border, and the tribal areas of Pakistan.

## The Chinese Taliban

To solve its problems in Xinjiang, China needs to change tack both at home and abroad. If global *jihad* is at the root of its problems, it is not enough, as China has done, in effect to subcontract the war against it to America and its allies, and to hope that its client, Pakistan, will rein in extremist groups based on its soil. With the drawdown of foreign troops in Afghanistan China is indeed starting to play a more active diplomatic role, even inviting two officials from the Afghan Taliban to talks in Beijing late last year. When Xi Jinping, China’s president, visits Pakistan next month, he is likely to demand stronger action against the militant groups that China sees as a threat in return for the largesse it lavishes on the country.

Foreign policy may be beginning to adapt to the threat, but policy towards Xinjiang itself shows little softening of the iron fist China has deployed as the way to tackle discontent. That does not excuse terrorism, and China’s anger at suggestions that it does is justified. But repression is not working, and is making it hard to present a united front against jihadist terrorism. ■





## Iranian foreign policy

## The long arm

CAIRO, JERUSALEM AND TEHRAN

**Iran is doing better than its rivals at expanding its influence in an unstable region**

OFFICIALS in Tehran are not shy about their aim of spreading influence abroad, nor of their apparent success. Even as the efforts of the West and its Sunni Arab allies look distinctly half-hearted, notably in their fight against Islamic State (IS), Tehran can claim, with only a pinch of hubris, to run three Arab capitals: Baghdad, Damascus and Beirut.

This week it may have added a fourth: Sana'a, Yemen's capital, where on January 20th Shia Houthi rebels took over the presidential palace (see page 43). American and Saudi officials believe the rebel militia is backed by the Iranians, although they deny it in public (and boast of it in private).

The takeover in Yemen came soon after an Israeli drone strike exposed Iranian meddling in another part of the Middle East. The cross-border attack on the Syrian side of the Golan Heights killed six fighters from Hizbullah, the Iran-backed Shia party-cum-militia in Lebanon, days after the group denied that it was in the area. More surprisingly it also killed Mohammad Ali Allahdadi, an Iranian general. His presence suggests that Iran was trying to establish a presence in an area that has fallen out of Syrian government control and into the hands of rebels with whom Israel appears to be on friendly-enough terms. To its critics, Iran alarmingly holds sway from the Mediterranean Sea to the Fertile Crescent and the Gulf of Aden.

Iran's biggest gains were handed to it by

America when, after the terrorist attacks of September 11th 2001, it removed hostile regimes in Iraq and Afghanistan. Iran has continued to extend its influence, even after a wave of Sunni uprisings that started in 2011 seemed likely to weaken the Shia regime's pull. The Quds Force, the foreign wing of Iran's Revolutionary Guards, has exploited the region's instability. Its tactics include assassinations and bombings overseas, and supplying arms and training to militias deemed helpful to its interests. "The Iranians are experts at taking advantage of chaos," says Shimon Shapira, a retired military man now at the Jerusalem Centre for Public Affairs, a think-tank.

The rise of IS, a Sunni jihadist movement straddling Iraq and Syria, has only strengthened Iran. Nuri al-Maliki, Iraq's former prime minister and an Iranian ally,



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For daily analysis and debate on the Middle East and Africa, visit

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was ousted in August, and American forces rode back into Iraq to rescue it from IS. But Iran has won much of the kudos. Iranian officials boast of being the ground force for America's air strikes. Politicians—Iranian and Iraqi—talk of Baghdad being intact, and the government in place, thanks only to a ring of defences set up around the city by Qassem Suleimani, the head of the Quds Force; some call him "Supermani".

Similarly Syria has fallen ever more under Iran's spell. Where Hafez al-Assad, father of the current president, kept Iran at arms length, his son "sold Syria to the Iranians," says a defected general. Mr Assad relies on Tehran for cash, advice and training for its paramilitary fighters. In Lebanon, Hizbullah's military force rivals that of the country's army, and it has maintained a tenuous military balance with Israel.

## Not waving but drowning

Iran's rising influence is a concern for Saudi Arabia and America. The Saudis are rich but mostly ineffectual and the Americans are reticent and often unwelcome outsiders. Whereas the Saudis are building a 600-mile-long wall along its border with Iraq to keep out IS militants, Iran has waded into Iraq to support Shia militias.

Yet Iran's reach has limits. One motivation for Israel's attack may have been to expose Iran's covert activities at a time when America looks close to striking a deal with the country over its nuclear programme. In what was likely an effort to calm tempers, Israeli officials later said they did not know the Iranian general was present, but Hizbullah cadres in southern Lebanon threatened retaliation, possibly with guerrilla attacks over the border with Israel.

Iran, however, would probably not be able to sustain a significant escalation or open confrontation. Propping up the Syrian regime is reckoned to have cost billions ►►



► of dollars that it can ill afford, now that oil prices have fallen and Western sanctions bite hard. Oil exports are down to less than half the pre-sanctions level of 2.5m barrels per day. Some in Lebanon say Iranian largesse to Hizbullah has been trimmed.

The growth of *is* just over the border in Iraq has Iranian officials worried. Yet Sunni extremism is, in part, a consequence of Iran's own policies. Mr Assad deliberately sought to destroy moderate rebels and stoke extremism to present himself as the only bulwark against jihadists. Disgust at the Syrian regime's brutality has led Hamas, the Palestinian Islamist movement, to distance itself from its Iranian backers.

Moreover, Iran's Shia allies are deepening sectarianism. Abuses by Iranian-backed Shia militias in Iraq are undermining attempts by the Baghdad government to woo the Sunni tribes whose support is needed to counter *is*. And Hizbullah has lost favour around the Muslim world by moving away from its supposed *raison d'être*—resistance to Israel—and fighting in-

stead to prop up Mr Assad.

Its meddling also undermines the overtures by Iran's president, Hassan Rohani, and his foreign minister, Mohammad Javad Zarif, who want Iran to be accepted as a normal state—starting with a deal with America and other Western powers over its nuclear programme. Some in the West think a nuclear deal could be part of a grand bargain to stabilise the Middle East. But more likely Iran would simply pocket a deal on its nuclear programme and continue its current policy in the region. Indeed it is already hinting at doing so.

Some Iranian officials, who think Saudi Arabia has refused to cut its oil production in an attempt to weaken Iran, talk about making mischief there by stirring up the oppressed Shia minority in the east. "It's not that we want to make trouble there," says a political adviser to Ayatollah Ali Khamenei, Iran's supreme leader. "But we have sent a message that if we wanted we could have the same benefits in the Gulf as we did in Iraq and Afghanistan." ■

the Muslim Brotherhood, the region's main Islamist movement, to help protect his kingdom against cries of revolution from Arab nationalist movements. He co-opted Islamists into government, and after their electoral triumph in 1989 allowed them to hold five ministries.

After King Hussein expelled Fatah, Yasser Arafat's armed Palestinian faction, in 1971, the late king also encouraged Palestinian Islamists to fill the ensuing vacuum. And in 1987, to counter Mr Arafat's persistent support inside Jordan, King Hussein helped Palestinian Islamists set up their own armed group, Hamas, with a base in his capital, Amman.

In his latter years, King Hussein reined back the Brotherhood after its visceral opposition to his peace treaty with Israel. He gerrymandered the boundaries of constituencies to dilute the vote in the cities where the Islamist support was strongest.

But he never completely cut ties with his old allies. When Israel's spooks poisoned Hamas's Khaled Meshal in Amman in 1997, King Hussein threatened to cut relations with Israel unless Binyamin Netanyahu, prime minister then as now, not only produced the antidote, but released Hamas's imprisoned leader, Ahmed Yassin.

By contrast King Abdullah, a military man, has frequently crossed swords with Islamists. Soon after ascending to the throne in 1999 he closed Hamas's Amman office and threw out its leaders. He was the first foreign leader to visit Egypt's generals after they overthrew Muhammad Morsi, the elected Muslim Brother president, in 2013. The king has deepened ties with the United Arab Emirates, which is a force behind the regional campaign against Islamists of all stripes.

Last September King Abdullah publicly joined America's coalition against *is*, when a more discreet ruler might have operated behind the scenes. And in recent months he has detained more than 30 Brotherhood members and hauled many to military trial, including Zaki Bani Irshaid, the movement's deputy in Jordan.

Confidants of the king insist the crack-down is working. With Jordan's Arab neighbours all in turmoil, or at war, the Brotherhood's demand for political reform in Jordan no longer resonates, says one. The king is at the zenith of his power, and seems untouchable. "There have been no 'Free Zaki' protests," he chirps.

Some Brotherhood members, too, say their increasingly combative leaders are to blame for their plight. But others warn that, as it has done before, the Brotherhood could respond violently when its political path is obstructed. "We're a peaceful movement," insists Muhammad Abu Faris, one of the Brotherhood's senior and more radical ideologues. "But the people and King Hussein were in harmony, and now his son stands alone." ■

## Islamists in Jordan

# The king and Islam

AMMAN

Will the king's attempts to curb Islamists backfire?

AS ALWAYS with King Abdullah of Jordan, politics is a bit of a gamble. As part of his war on Islamist extremism he wants to foster a version of the religion that is more submissive to the region's regimes. In partnership with Abdel Fattah al-Sisi, a military man turned Egypt's president, he is preparing to summon Muslim leaders next month to Cairo's Al Azhar, one of Sunni Islam's oldest seats of learning, for a summit on modernising Islam.

Although their voices may be stifled by tightened anti-terrorism laws, many of his subjects are dubious. In a country where some 90% of the population is Sunni Muslim, many wonder why their monarch has joined the American-led coalition against jihadists from Islamic State (*is*). "We don't understand why the king has joined the alliance against Syria's Sunnis in *is* and is helping to prop up Bashar al-Assad, who has far more blood on his hands," says a Jordanian writer. After the capture by *is* of a Jordanian pilot whose plane came down in Syria in December, a group of retired army officers issued statements arguing that Jordan should not be involved.

The king's appearance at a march in Paris alongside world leaders after the attack on *Charlie Hebdo* caused further unhappiness. Shortly after the king returned home, a protest gathering against the magazine

and its cartoon of the Prophet Muhammad drew thousands of people.

Old-timers recall the less abrasive approach of King Abdullah's father, Hussein, who had maintained a long tradition of allying with political Islamists. Indeed, the Hashemite dynasty's claim to descend from the Prophet Muhammad gives it strong religious credentials and enduring appeal. In the 1950s King Hussein relied on



Not the submissive sort



## Instability in Yemen

## Held hostage

SANA'A

**Houthi rebels carry out a coup in all but name**

**"I**T IS time to say goodbye to Hadi," said a resident of Sana'a, Yemen's capital, after Houthi rebels took control of President Abd Rabbo Mansour Hadi's residence on January 20th, in effect putting him under house arrest. In fact most Yemenis, who have been mere observers of the armed battle between rival groups for control of the capital, already bade farewell to him months ago. The Houthis, who are mostly Shia, emerged from their northern redoubt in 2011. By September they had advanced into Sana'a by exploiting the country's power vacuum, engaging in populist politics and launching well-timed attacks.

As *The Economist* went to press, Mr Hadi was still the president, but only just. He was at the mercy of one man: Abdel-Malik al-Houthi, the commander of the rebel movement. In an agreement reached on January 21st the Houthis pledged to withdraw from the presidential palace and other key sites. Their reward is that they have been granted many of their demands, including more clout to appoint officials. In effect, many reckon Mr Hadi, an American ally in the fight against al-Qaeda in the Arabian Peninsula (AQAP), is now little more than a puppet president.

The latest fighting was precipitated by the completion of a new draft constitution, which, the Houthis say, enshrines a six-region model which they oppose on the grounds that it would weaken the country. On January 17th Houthi gunmen abducted Mr Hadi's chief of staff, Ahmed Awad bin Mubarak, while he was travelling to a meeting with a national body charged with ratifying the constitution. Under the peace deal the six-region structure will be dropped from the constitution.

But some see the Houthis' justification as a thinly veiled excuse for snatching power. The Houthis have a habit of striking peace agreements, pocketing the concessions they win and then resuming armed action. After this round they emerge fortified with additional arms from stockpiles inside the presidential palace.

A once-marginalised movement that emerged from the Zaydi branch of Shia Islam, whose devotees make up about 40% of Yemen's population, the Houthis fought against the army in the northern province of Saada between 2004 and 2010. Subsequently the group, which prefers to call itself Ansar Allah, or the Partisans of God, amassed power by allying with loyalists to the former president, Ali Abdullah Saleh,



**Houthi looking at pal?**

who was toppled in a popular uprising in 2011. Together their men form the "Popular Committees" that now patrol Sana'a. Sources in the capital say that the fighting against the government is being led by former members of the Republican Guard, an elite military unit led until 2013 by Ahmed Ali Saleh, the son of the ousted president.

Many ordinary Yemenis share some of the Houthis' grievances. These include concerns about poverty and corruption, which were aired but never dealt with after the 2011 revolution. But people worry that the fighting will never end.

Yemen's instability is born of long-standing internal rivalries that are exacerbated by competition between regional rivals—Saudi Arabia, which supports the government, and Iran, which is said to back the Houthis. The Houthis find politics "a time-consuming and ineffective tool compared with their guns", says Farea al-Muslimi, a Yemeni columnist. The challenge from the Houthis has also allowed for a regrouping of AQAP, against whom the army had made significant progress.

Last year Saudi Arabia froze all funding to Yemen in response to the Houthi takeover of Sana'a, and America led a push for UN sanctions against senior Houthi military commanders. This week the UN Security Council issued a unanimous statement backing Mr Hadi. But there is little appetite for intervention to support him. Instead, a Houthi-run Yemen is likely to become increasingly isolated and economically unstable. That could, in turn, strengthen southern Yemeni separatists and AQAP, which claimed responsibility for the attack in Paris against the offices of *Charlie Hebdo* earlier this month. The consequences of instability in Yemen extend far beyond its borders. ■

## Congo and Rwanda

## Ever again

NAIROBI

**A long-awaited push to destroy some of Africa's most notorious killers**

**T**HE Rwandan genocide of 1994 killed 800,000 people, most of them ethnic Tutsi, in the space of three months and triggered two successive civil wars in neighbouring Congo. Although these more or less ended in 2003, the genocide's fallout can still incite violence and rouse armies. This month the UN Security Council authorised a military attack by a 3,000-strong multinational intervention force against a militia in eastern Congo that was formed two decades ago by Rwandan *genocidaires* who fled to the region's remote forests after losing power. They have made murderous mischief there ever since in the hope of toppling their former foes.

The FDLR, the Democratic Forces for the Liberation of Rwanda, is accused of rape, plunder and the killing of civilians in the border area around Lake Kivu, contributing to the political chaos that has reigned in Congo ever since their arrival. The UN has long tried to neutralise the FDLR, along with more than a dozen other militias around the lake. Six months ago it issued a deadline of January 2nd for the FDLR to hand in its weapons. Only a small number of militiamen complied, primarily those not fearing extradition to Rwanda, while the rest used the grace period to rearm and prepare themselves for battle.

Plans for the attack by the UN contingent, which is expected within days, follow diplomatic pressure from America and Rwanda. The main contributors to the intervention force, South Africa and Tanzania, have been less keen. Last year Tanzanian officials called the FDLR "freedom fighters". Both countries have now signalled support, despite their poor relations with Rwanda and worries about casualties. Nowhere else does the UN conduct offensive military operations.

The attack will be tricky as the militia is camped in jungles and swamps, and is mixed in with civilians. A previous operation in 2009 by Congolese and Rwandan troops led to a humanitarian catastrophe, with 1m people fleeing their homes. FDLR units could scatter in the coming months and form smaller bands of insurgents, endangering aid supplies to impoverished villages. Jason Stearns, a leading analyst of Congo, wrote on his blog: "Attacking the group is like squeezing a balloon; the FDLR will simply run."

The group's composition has changed over the past two decades. Some old Rwandan commanders have died, fled or ►►



► retired, and young Congolese have come in their stead, many of them ethnic Hutus like the *genocidaires*. The FDLR is, moreover, riven by factionalism and is no longer the threat it once was. Its ranks have dwindled by 90% from about 20,000 to just a couple of thousand now. But it is said to have links to elements in the Congolese security forces, which help to sustain it.

The UN does have some form in stamping out murderous militias. In 2013, with the aid of Congolese soldiers, it dispersed another homicidal group in eastern Congo called M23. That endowed its 22,000-strong mission, one of the world's largest and most costly, with a new sense of purpose. But it is not clear that fighting ragtag armed groups one by one can restore peace in Congo. The UN will never have enough troops to secure the vast country, and the national army is corrupt, ineffectual and brutal. In this it is much like the militias, from where some of the government's soldiers originate—thanks to an international programme to integrate them into the national army. Now the UN seems to have embraced a method of taming the rapists and killers rather more familiar in Congo—by trying to kill them. ■

### The fight against Boko Haram

## Africa's Islamic State

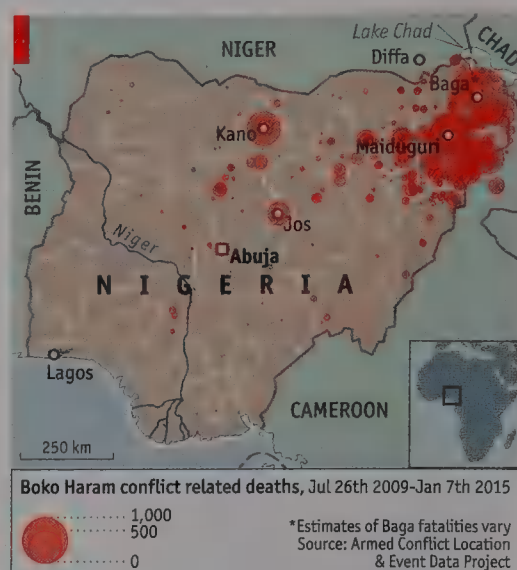
LAGOS AND KIRIKIRI

A jihadist insurgency in Nigeria is turning into a regional conflict

DEFLECTING blame is a skill prized by politicians the world over. Many could, however, still learn a thing or two from Goodluck Jonathan, the president of Nigeria, who has found no end of scapegoats for Boko Haram, a vicious insurgent group in the north-east of Africa's most populous country. Mr Jonathan's most common evasion is that Boko Haram is a regional problem that cannot be solved by Nigeria alone.

His excuses seem, unfortunately, to be metamorphosing into fact. Boko Haram is now spreading its poison into neighbouring states. The kidnapping of about 80 Cameroonians from villages near the border with Nigeria has shone a light on its growing clout throughout the countries around Lake Chad.

Further north in Niger, in the once-sleepy fishing village of Kirikiri, makeshift huts are crammed with refugees who have fled Boko Haram, which loosely translates as "western education is forbidden". Every day dozens more wade off boats, their few possessions held high over their heads. Security is deteriorating fast. Shortly after your correspondent's arrival on a visit last



year, armed guards became nervous, urging the party to move on in case it became a target. In the nearby hospital in Diffa, Nigerian soldiers lay three to a bed, bleeding through their bandages, after retreating across the border.

Boko Haram, which has killed thousands in its fight to establish a "caliphate", has seldom shown much regard for national boundaries. It readily retreats across them when threatened, or crosses into neighbouring states to recruit and train disaffected young men, as it has recently been doing in Diffa.

Yet it had not previously nursed the same apocalyptic ambitions in neighbouring countries as it does in Nigeria. That may be changing. Many experts now think it hopes to replicate the ancient Kanem-Bornu Empire that once spanned bits of Niger, Chad and Cameroon.

So far, Cameroon has been the worst afflicted of Nigeria's neighbours. Kidnappings on its soil have become ever more audacious over the past year. The government has responded by deploying troops to the northern borders, prompting reprisals from the militants. In December, Boko Haram briefly overran a military base in Cameroon and attacked five villages. With the situation spiralling, pressure is mounting on regional governments to respond, but their efforts have been ineffectual. Last year the Lake Chad countries agreed to deploy a multinational task force to fight the insurgency; several countries pledged to send 700 soldiers each. But plans have stalled as they bicker over details, including the right of hot pursuit.

A meeting beginning in Niger on January 20th was supposed to set wheels in motion, though at the time *The Economist* went to press little appeared to have been agreed on. Other initiatives also appear to have floundered. A French plan to set up an intelligence fusion centre was left with little intelligence to fuse when most of those taking part neglected to send liaison officers. The regional economic grouping, ECOWAS, says it may also request an Afri-

can Union force to tackle the problem. Whether that is likely to materialise is another question. AU troops are already stretched across the continent—in Somalia, Central African Republic and Mali, among other places—and may not have the resources to respond, says Ryan Cummings of red24, a crisis management group.

Nigeria's prickly government would, moreover, probably reject the notion of foreign forces fighting on its soil. Yet there is little left to justify its pride. Nigeria's army suffers from weak morale—at least 66 soldiers are on death row over their refusal to fight last year—and its units have often fled (the army calls it tactical manoeuvring) before the militants.

Western countries appear to be losing patience. Relations with America have cooled noticeably since revelations of the Nigerian army's abuses of human rights. In response, Nigeria cancelled a programme under which American soldiers trained Nigerian ones. American is now offering help to Cameroon instead.

Chad, which has so far escaped the escalating crisis, recently began the deployment of 2,000 soldiers to assist Cameroon on the Nigerian border. Its army has a good track record against insurgents, most recently in Mali in 2013. Yet Abubakar Shekau, Boko Haram's leader, seems unconcerned. He declared in a recent video: "The kings of Africa, you are late. I challenge you to attack me even now."

But for all the spillover, the problem is largely a Nigerian one. With elections approaching on February 14th, many politicians are focused more on their campaigns than on fighting the insurgency. Until Nigeria's leaders show that they can take the war as seriously as they do politicking, it will be impossible to curb Boko Haram—even with regional forces to help. ■



Threatening the region





## Italy's reforms

## Renzi's struggle in the swamp

ROME

The prime minister presses on with his reform agenda after winning a crucial vote

NO RECENT Italian prime minister has swept into office with as much youthful vigour and brazen self-confidence as Matteo Renzi. But almost a year after he snatched power from his predecessor, the 40-year-old Mr Renzi is waist-deep in what Italians call *il pantano* (the swamp). Its quicksand and viscous waters—a mix of bureaucratic obstructionism and parliamentary cantankerousness—have swallowed many an earlier would-be reformer.

Mr Renzi, however, is making progress: on January 21st the Senate approved a measure that should ensure the passage of a new electoral law. But gone are the days when he promised to transform Italy with a reform a month. His Democratic Party (PD) is still ahead in the polls, but its popularity has ebbed. And the only big structural economic reform that he has made is an overhaul of the labour market that has yet to be enacted.

Mr Renzi has enjoyed the backing of two unlikely figures: the outgoing president, Giorgio Napolitano, a former communist; and Silvio Berlusconi, leader of Italy's main right-wing party, Forza Italia, and a former prime minister who last year agreed to back plans for political and constitutional reform. But the 89-year-old Mr Napolitano dropped out when he resigned on January 14th, leaving Mr Renzi to press on with Mr Berlusconi.

Often seen as the swamp's most dan-

gerous predator, the media tycoon is known to critics as *il caimano* (the cayman, a small alligator), a nickname from a film director, Nanni Moretti. Mr Renzi has so far kept his sharp-toothed escort under control. Mr Berlusconi, convicted of tax fraud in 2012, has been expelled from parliament, banned from standing for public office and made to do community service in a centre for dementia patients. But he will complete his sentence in March, and in exchange for helping Mr Renzi with electoral reform he can expect an important say in the choice of Italy's next president. The presidency carries limited, but often decisive, powers—and one is to grant pardons.

Mr Renzi and his advisers believe Italy's economic and political problems are fundamentally institutional, and that no prime minister can solve them without outright control of parliament. One half of their proposed solution is to turn the upper-house Senate into a regional assembly with drastically reduced powers. The other is a new electoral law for the lower-house Chamber of Deputies, aimed at producing a clearer outcome: if no party wins more than 40% of the vote, a run-off would be staged between the top two with the winner getting an assured majority. Mr Renzi's cabinet altered the bill after the chamber passed it, so a final reading in the lower house is needed for it to become law. But it first has to be approved in the Senate,

where the government lacks a majority.

The situation became trickier on January 20th, when only 71 of the PD's 108 senators backed the bill. Many who were already seething over the government's labour reforms complain that the electoral law would retain for party leaders much of the power they now enjoy to decide who enters parliament. That deprives voters of the ability to choose who should represent them. It also means Mr Renzi could keep out of the next legislature many of those making his life harder in the present one.

Even with the backing of his coalition partners in the New Centre Right (NCD), a party of ex-Forza Italia rebels that has greater representation in the Senate than in the country, Mr Renzi could not have passed his electoral reform without Mr Berlusconi's support. Cajoled by their leader, most of Forza Italia's senators agreed to back the government. Yet 13 did not. Forza Italia's dissidents grouse that the bill confers a guaranteed majority in the lower house on the biggest party, and not a winning coalition. Their leader, Raffaele Fitto, a former governor of Puglia, calls it "political suicide" for the right.

A glance at recent polls shows why. If it were a race between alliances, left and right would be neck-and-neck on around 40% and 36%, respectively. But, despite Mr Berlusconi's best endeavours, Italy's conservatives have never managed to unite in one movement for more than a few years. The biggest party, Forza Italia, is only on 15%, far below the PD alone.

Mr Berlusconi has other priorities, however. After his latest meeting with Mr Renzi, he disclosed that the next, on January 27th, would discuss the presidency. If the electoral bill has got through the Senate with Forza Italia's support, Mr Berlusconi will then be in a strong position to insist on ►►

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▶ a candidate to his liking. That would enhance the chances of Pier Ferdinando Casini, once his deputy prime minister; Giuliano Amato, a former prime minister whose political roots (like Mr Berlusconi's) are in the old Italian Socialist party; and Anna Finocchiaro, the PD leader in the Senate and one of the few left-wingers acceptable to the right.

Presidents in Italy are elected by a body comprising the members of both houses plus regional representatives. Surprises are

common and the (secret) ballot is expected to go to a fourth round, when a simple majority becomes sufficient. The sooner there is an outcome, the better. Since rumours began circulating about Mr Napolitano's impending resignation in November, the attention of Italy's politicians and journalists has focused almost exclusively on politics, neglecting an economy that is still in recession and which even Mr Renzi's optimistic advisers do not expect to grow by more than 0.2% this year. ■

## German politics

# Gone boy on the right

BERLIN

How an anti-foreigner, anti-establishment group is changing German politics

THE march on January 19th in Dresden by Pegida, or "Patriotic Europeans against the Islamisation of the Occident", would have been its 13th. But it was cancelled because the police had "concrete" information of plans to assassinate its organiser, Lutz Bachmann. On January 21st Mr Bachmann was exposed in German tabloids for posing as Hitler on his Facebook page. He called it a joke, but later resigned his position. Pegida plans to resume its marches next week.

Among its followers, despite Mr Bachmann's antics, neo-Nazis are a small minority. The typical marcher is a middle-aged, middle-class Saxon man who, says Hans Vorländer at the Technical University of Dresden, is alienated from politics and the liberal media, and yearns for a homogenous fatherland. The marches may have "passed the peak", adds Dieter Rucht at the Berlin Social Science Centre. Yet there will be political fallout. Nine-tenths of Pegida supporters back the Alternative for Germany (AfD), founded only in 2013 and represented in three eastern state parliaments.

The AfD began with an anti-euro message. Some leaders, such as Hans-Olaf Henkel, from Hamburg, want to keep it that way. But, especially in the east, the party has used populist innuendo against asylum-seekers, immigrants and homosexuals. Party elders like Alexander Gauland, in Brandenburg, openly flirt with Pegida. This is straining the AfD, which has three leaders. Bernd Lucke, an economics professor, favours an anti-euro message; Frauke Petry, a businesswoman from Saxony, and Konrad Adam, a former journalist, sympathise with Pegida. Mr Lucke wants to lead alone, but Ms Petry and Mr Adam have resisted him. In a compromise, Mr Lucke will take over as boss only next December.

German democracy is responding without hysteria. Marchers against Pegida have recently far outnumbered

those for it. The centre-left Social Democrats and Greens refuse to debate with Pegida, and Chancellor Angela Merkel, leader of the centre-right Christian Democrats, has condemned it. Others are open to dialogue. One Christian Democrat, Jens Spahn, even joined a televised debate with Kathrin Oertel, one of Pegida's organisers.

That was a big step for a group that had previously refused to talk to the media. Its marchers chant "Lügenpresse" ("lying press"), a term once used by the Nazis. Yet on the very day of the cancelled march, Pegida held its first-ever press conference. In the public glare, its leaders tone down their language. When confronted, their counter-arguments seem weak. Asked why Saxons should worry about Islam when only 1% of Saxony's population is Muslim, Ms Oertel said some Germans march for the rainforest though Germany has none.

The gradual conflation of the AfD and Pegida is a new and worrying phenomenon. There must never be a legitimate party to the right of the CSU, the Christian Democrats' Bavarian sister party, said Franz Josef Strauss, a longtime leader of Bavaria, with Germany's Nazi past in mind. Such a party has now arrived, and could enter the Bundestag in 2017.



Bachmann: only joking, honest

## French politics

# After Janvier

PARIS

Terror makes the president ■ statesman, but his new popularity may not last

HIS Socialist colleagues once called François Hollande "Flanby", after a wobbly caramel pudding. Laurent Fabius, his foreign minister, likened him to an insignificant wild strawberry. But the leader who emerged after the Paris attacks of January 7th-9th is of a different stature to the politician who had, until then, been the Fifth Republic's most unpopular president. Mr Hollande seems to have grown into a role that had eluded him.

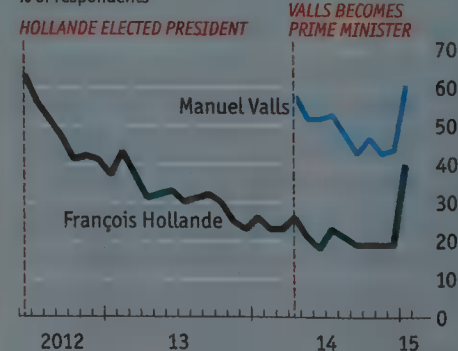
Since de Gaulle, the French have had impossibly high expectations of their president. He must be exceptional and ordinary, ■ monarch and a man of the people, above politics but legitimate in his party, in command of diplomacy and armies as well as domestic affairs. And he should embody France, with an elegance and authority that inspire pride and respect.

Until now Mr Hollande had, to put it politely, struggled. His escapades on a motorcycle a year ago, visiting one woman while living with another, did not help. Nor did his early mismanagement of the economy or his failure to make good on recurrent pledges to bring down unemployment. A succession of ministerial resignations, over secret Swiss bank accounts or failure to pay income tax, undermined claims to exemplary behaviour. The politician who promised to be a "normal" president was overwhelmingly too much so.

The terror attacks have revealed a new leader. Mr Hollande displayed all the right instincts, rushing to the site of the murders even as the assassins were on the loose. He behaved with authority during the manhunt, as well as with dignity and empathy in ceremonies to honour the dead. His approval rating has jumped by 21 points, to 40%, according to a poll by Ifop. Fully 60% ▶▶

## Down and then up

Satisfaction with the president/prime minister  
% of respondents



Source: Ifop



► said he had defended the country's interests well. Manuel Valls, his prime minister, jumped 17 points to 61%. Bernard Cazeneuve, the quietly solid interior minister, also enjoyed a leap in the polls.

The result is a newly reinforced left, which has also benefited from the uncommon restraint of its opponents. On security matters there is a spirit of national responsibility. Nicolas Sarkozy, the opposition UMP leader and former president, sent Mr Cazeneuve new proposals, including depriving those convicted of terrorism of French nationality or civil rights. Promising more money for the intelligence and security services, Mr Valls said he would consider these ideas, even though some have been criticised within his party.

Most astonishing has been the appropriation by the left of patriotic values and the flag, usually a preserve of the right. The French left has long shied away from concepts like authority and national pride, and is unfamiliar with the idea of combining them with toughness on security. But the mix matches today's mood, as well as Mr Valls's personal political brand, robbing the right of its old monopoly.

The left's gains may not last, however. There is still no sign of an economic upturn, and unemployment remains stubbornly high. Even now, only 24% of poll respondents think Mr Hollande is doing a good job on the economy. Socialists recall that in 1991 François Mitterrand's popularity, boosted by France's participation in the first Gulf war, dropped from 65% in February to 31% by the end of the year. Mr Hollande may have rescued his reputation. But the Socialists still face heavy losses to the UMP at departmental elections in March, and regional elections in December.

And then there is the threat of Marine Le Pen, leader of the populist National Front. Many say she mishandled her response to the terror attacks. She was not invited to the Paris freedom march and chose not to go, which made her look like a marginal figure who had failed to be "detoxified" and taken seriously. This, combined with a tougher line from the government on radical Islam, could weaken her.

Yet such views may be complacent. The National Front came top in the 2014 European elections. Many of its voters did not take part in the Paris march. Meanwhile, in heavily Muslim areas, there were 200 reports of disruption in schools, mostly of the minute's silence in honour of the 17 dead. Latent Islamophobia lurks. Aymeric Chauprade, a National Front leader, put out a video saying "France is at war against Muslims." Ms Le Pen condemned this, and is careful to single out radical Islam. But in populist politics, what matters to her silent minority is often what is not said. "She made tactical mistakes," says one Socialist minister. "But her support is much more solid than you might imagine." ■

## War in Ukraine

# Airport saga

DONETSK

**Renewed fighting in eastern Ukraine makes a mockery of all peace deals**

“AT THE beginning of the 1930s, the creators of this airport had no idea what a high-tech facility it would become,” said President Viktor Yanukovich at the opening in 2012 of Donetsk's new international airport, named after the composer Sergei Prokofiev. He had no idea what a wreck it would become. After eight months of fighting, the buildings are in ruins. Deep craters dot the runway, alongside aircraft hulks. Renewed clashes are reigniting a war that has claimed 5,000 lives.

Since May 2014 Ukrainian troops at the airport have been under attack, earning the nickname “cyborgs”. Fighting has taken place at close quarters, often within the same buildings. Petro Poroshenko, the current president, praised the cyborgs for representing the “invincibility of the Ukrainian spirit”. But as the legend grew, so did the political risk of losing it.

Its symbolic importance made the airport a key target for the separatists. After a holiday lull they began pounding again in mid-January. The Russian media soon aired footage of rebels raising their flag above the rubble, so Mr Poroshenko ordered a counter-offensive. But on January 22nd reports emerged that the airport had fallen under rebel control. Shelling continued around it and over Donetsk, with 13 people killed at a bus stop on the same day. Fighting has spread all along the front line: Debaltsevo and several towns north of Luhansk have been under intense fire.

In these circumstances, the Minsk peace deal struck in September seems largely notional. A summit of Ukraine, Russia, Germany and France has been cancelled. In Kiev a bombastic Mr Poroshenko

has promised to recapture the south-eastern region. Russia's deputy foreign minister warned of “irreversible consequences” if Ukraine sent troops into Donetsk city.

One senior Ukrainian government official says negotiations are losing their meaning: “We sit and talk for hours about nothing.” Mr Poroshenko says 9,000 Russian troops are active inside Ukraine. Russia, as usual, denies this. Mr Poroshenko's figure may be exaggerated, but big rebel attacks cannot happen without Kremlin support. “There is a difference between [Russia's] political statements and reality,” one Donetsk rebel concedes.

The airport became a target last May, just after Mr Poroshenko's election, when separatists launched an unsuccessful assault. For the first time, the battle brought wide-scale fighting to Donetsk, a city of 1m people. Dead fighters soon overflowed the city morgue. They included the bodies of 30 Russian “volunteers”, ferried back over the border in the dark.

Defending the airport was the Ukrainian army's only triumph. Its fall may produce a despair similar to that seen after last August's crushing defeat at Ilovaisk. And if the rebels can capture nearby towns, the airport may be used to resupply them. Ukraine has beefed up its army: another 50,000 citizens will be mobilised this year. Yet the army is far from ready to recapture lost territory, says Oleksiy Melnyk, an analyst at the Razumkov Centre in Kiev. The Kremlin may now use military pressure to seek a more favourable peace deal.

Russia also has plans to strengthen its army, building up troops in Crimea and in Kaliningrad. Economic woes do not seem to have altered Vladimir Putin's strategy. His popularity rating remains over 80%. He still hopes to convince the West that it has more to lose if relations remain bad. For instance, on January 20th Russia's defence minister signed a deal with Iran on military co-operation. And at Donetsk airport, Mr Putin is seeking to show that, no matter what the West is willing to do for Ukraine, he will do more—or go down trying. ■



No passengers for a while yet



## Switzerland's currency

## Shaken, not stirred

GENEVA

**The Swiss are feeling shocked and discombobulated by their central bank**

SWISS voters used to hold their central bank in high esteem: one survey in 2013 found the Swiss National Bank (SNB) to be their most respected national institution. That may change after its shock decision on January 15th to abandon the Swiss franc's cap against the euro. The franc instantly shot up by 30%, provoking howls of anguish from Swiss firms. "A strong franc threatens the entire Swiss system," shrieked one Geneva daily.

The bank's action was "a tsunami" for exporters, tourism and "the entire country", protested Nick Hayek, chief executive of Swatch Group, the world's biggest watchmaker, as he saw its shares plunge by 16% in a day. "Luckily I was sitting down" when the SNB called to warn of its impending announcement, said Johann Schneider-Ammann, the federal economics minister charged with trying to keep Swiss industry competitive. Exporters, he acknowledged, face a huge challenge.

Swiss hoteliers are among the most fretful. Tourism is the country's fourth-largest foreign-exchange earner after chemicals, the machine industry and watchmaking, generating about SFr35 billion (now \$41 billion) a year and 175,000 full- and part-time jobs. Switzerland was never cheap and is now even dearer. Hotels have not reported mass cancellations but have seen a slow-down in bookings, says Véronique Kanel of Switzerland Tourism, an industry association. How bad it gets depends on where the Swiss franc goes. It helps that "Swiss are very faithful to their own country when it comes to vacations", she says. "But if you've got Swiss francs it's more interesting to travel abroad now."

The clear winner in the short term is the Swiss consumer. Upscale shops, luxury-car makers and expensive watch brands are offering hefty discounts. Mercedes-Benz in Switzerland has announced an immediate 18% discount on all models. A sale at Bongénie Grieder, a fashionable clothing store, already offered price cuts of up to 75%; now it has lopped 20% off all non-sale prices "for an indeterminate period".

Retailers may still find life hard. Swiss luxury-goods shoppers spend less than their European counterparts and are driven more by value for money than by a brand's reputation, according to a survey by Deloitte, a consultancy. More positively, the survey found they prefer buying local brands to support the economy. But many Swiss bypass high local prices by shopping

online. Residents of Geneva or Basel have long hopped over the border into France or Germany to take advantage of lower prices. After the SNB announcement, Swiss media reported long queues of cars heading across the German border and cashpoints running out of euros.

Nor was it only Swiss nationals who were shaken. Foreign residents paid in other currencies saw the value of their wages tumble and the cost of their mortgages shoot up (a problem that has also hit east Europeans, especially Poles, who took out Swiss-franc mortgages). Expatriates paid in Swiss francs are uneasily aware how much more expensive they have become. Swiss-based multinationals have cut costs in successive rounds of pushing jobs to cheaper places. Those who survived previous rounds now wonder if theirs will go in the next one. ■

## Spain and Catalonia

## Mas observation

MADRID

**Catalonia calls an election, but it will be only one of many in Spain this year**

CATALAN independence, if it ever happens, has been pushed back at least seven months after the region's president, Artur Mas, decided not to call a snap election but to opt instead for September 27th. The election is still being promoted as a plebiscite on independence, but not in the way Mr Mas once hoped. His original plan for a single list uniting all the separatist parties has been dropped at the insistence of his rivals from the Catalan Republican Left



Mas waves the independence flag

(ERC). In last-minute horse-trading, he accepted that ERC would stand separately from his own Convergence and Union (CiU) coalition, in exchange for its support for this year's budget, which his minority government could not pass alone.

That has turned the September poll into one as much about winning power as about independence, with ERC well-placed to oust CiU as the most popular party. The timing is both good and bad for the separatists. It comes just two weeks after Catalonia's national day, on September 11th, which campaigners have turned into a mass event in recent years. But they would still have preferred a February vote, before Catalans are distracted by a flurry of polls right across Spain.

Elections in most other regions and municipalities will be held in May. They will test the staying power of the new upstart left-wing party, Podemos ("We Can"), which leads in several opinion polls, and its local party allies in various one-off groupings. One interesting battle will be in the Catalan capital, Barcelona, where Podemos backs a group called Guanyem ("We Win"). The Barcelona election, with several parties likely to win seats, will be an example of the fractured new politics of Catalonia and Spain: sometimes three parties may be needed for a majority.

Catalonia's independence movement faces further internal spats. Mr Mas and the ERC leader, Oriol Junqueras, want to agree on a common road-map to independence. Mr Junqueras will push for it to be hard-hitting. But some of Mr Mas's allies within CiU want it weakened. If not, the coalition's junior partner, the Democratic Union of Catalonia, may split from Mr Mas's own Catalan Democratic Convergence. And the slim majority for independence found in some polls may go with it.

Spain's prime minister, Mariano Rajoy, is hoping that economic recovery, with growth outstripping most of the rest of Europe, will create enough jobs and goodwill to stop the independence bandwagon. His Popular Party (PP) is also readying itself for a bruising confrontation with Podemos in cities and regions like Madrid and Valencia in May. A big Podemos march in Madrid on January 31st will be a demonstration of the new party's muscle.

The party has its sights firmly set on the general election due in late November, which its leader, Pablo Iglesias, portrays as a battle between Podemos and the PP. Spain's mainstream Socialists, he hopes, will go the way of Greece's ailing Pasok. Mr Iglesias is duly campaigning for the Syriza party in Greece's election. But Podemos also seeks to dilute Catalan separatism by offering an alternative outlet for those frustrated with Mr Rajoy. And unlike Mr Rajoy, who refuses ever to contemplate an independence referendum, Podemos says the issue should be put to a vote. ■



# Charlemagne | Berlin v Frankfurt

Tensions are rising between Germany and the European Central Bank



TO UNDERSTAND the complex relationship that Mario Draghi, head of the European Central Bank (ECB), enjoys with Germany you could do worse than flick through the archives of *Bild*, the country's biggest tabloid. "Mamma Mia!" it fretted in February 2011, when Mr Draghi, then governor of Italy's central bank, emerged as a candidate. "With Italians, inflation is a way of life, like tomato sauce with pasta." Two months later, after a charm offensive by Mr Draghi, the paper relented, praising his Germanic rectitude and showing a picture of him under a *Pickelhaube* (a spiked Prussian helmet). But in August 2012, soon after Mr Draghi said he would do "whatever it takes" to save the euro, *Bild* said it would demand its helmet back if Mr Draghi opened the money spigot for lazy Spaniards and Italians. This week, with Mr Draghi preparing to announce plans for quantitative easing (QE)—creating money to buy sovereign debt—the tabloid warned of devaluation, doom and decline (if not, yet, inflation).

Mr Draghi was never the crazed money-printer of German nightmares. But like other central bankers, he has concluded that extraordinary economic times call for extraordinary measures. Europe's economy is in the doldrums; it is flirting with deflation, with the oil-price collapse driving headline inflation in the euro zone down to -0.2% last month (the goal is "below, but close to, 2%"). Long-term inflation expectations are worryingly low. The ECB has deployed various unorthodox measures, including cheap financing for Europe's banks and negative interest rates. Now Mr Draghi is reaching for the last tool in the box (the ECB's governing council was expected to approve a QE package on January 22nd, after we went to press).

QE deeply unnerves many Germans, brought up on memories of a hard Deutschmark and fears of inflation. Today Wolfgang Schäuble, the finance minister, downplays the deflation threat. There is an added complication: in easing monetary policy, Germans fear, the ECB also eases the pressure on countries like France and Italy to reform their economies and bring their budgets under control. Look at Italy, they say: in 2011 Silvio Berlusconi, then prime minister, pledged budget cuts and structural reforms under ECB pressure, only to backtrack as soon as the bank's intervention had cut interest rates. Investors' anticipation of QE has already helped push many euro-zone bond yields to record lows.

The ECB's monetary activism has riled Germany before. In 2011 two of its central bankers quit their jobs over the ECB's intervention in bond markets. Mr Draghi's relationship with Jens Weidmann, head of the Bundesbank, is notoriously scratchy. Mr Weidmann and his fellow German on the governing council, Sabine Lautenschläger, were expected to vote against QE this week.

What makes the QE row different, and more dangerous, are signs that Mr Draghi is losing the confidence of Angela Merkel, Germany's chancellor. In the euro's darkest hour in 2012, she backed Mr Draghi over the protests of Mr Weidmann, her former adviser, when the ECB approved a conditional bond-buying scheme known as OMT. But this week, in a speech in front of both men, she voiced her fears that ECB action might "result in the impression that what needs to be done in the fiscal and competitive spheres could be pushed into the background." She has been irked by Mr Draghi's strident demands that countries with "fiscal space" (ie, Germany) should use it to boost demand.

In most European institutions German economic clout has translated into outsized political heft. In the ECB, by contrast, its formal exercise of power is limited. Germans have just two of the 21 votes that determine the bank's policy (and under a complex new set of rules, it will sometimes be just one). But Mr Draghi's concessions over QE show how far German angst influences ECB business. Many analysts expect the QE programme to oblige the euro zone's national central banks to take on the risk of their respective governments' debt, rather than pooling it among all 19 members. The overall size of the programme may also be limited, and the bonds of countries with poor credit ratings excluded.

## A medium-sized bazooka

Mr Draghi may guard his independence fiercely, but his political antennae are finely tuned. He knows that without German assent his own efforts will flail. Nor are his concerns as misaligned with Mrs Merkel's as some suggest: in recent speeches he has sounded positively Teutonic in his insistence that governments must complement the ECB's monetary policy with their own structural reforms, particularly to labour markets.

But for sceptically minded Germans, the bad news keeps piling up. Recently a German legal challenge to the OMT bond-buying programme was rejected in a preliminary opinion by the European Court of Justice's advocate-general. On January 25th Greece looks likely to elect an explicitly anti-austerity government. The European Commission is helping several countries to exploit "flexibility" in its fiscal rules. At home, the rise of the anti-euro Alternative for Germany (AfD) party is furrowing brows in the chancellery ahead of state elections in Hamburg and Bremen. The persistence of low inflation in the euro zone gave Mr Draghi no option but to act. But it comes at a political price.

The danger is clear: that a QE package burdened by German-imposed constraint proves ineffectual and yet manages to corrode German support by its mere existence. The political damage, in other words, could turn out to outweigh the economic benefits. Germany will surely grow more hostile to future bail-outs, as well as to proposed changes to euro-zone governance. Mr Draghi may find it harder to expand the QE programme in future, as other central banks have done, or to relax its conditions. More difficult battles for the ECB's president surely lie ahead. That *Pickelhaube* could yet come in useful. ■





### Northern Ireland's economy

## A new kind of trouble

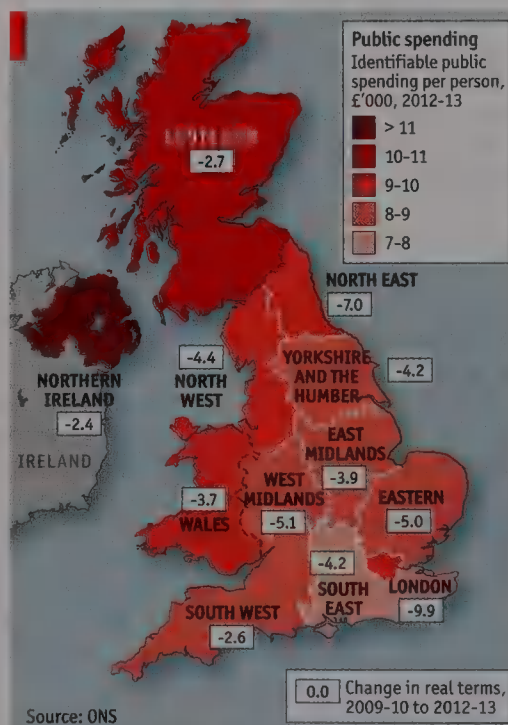
BELFAST

**With the guns mostly silent, Ulster can begin to deal with its lamentable economy**

THE good news about Northern Ireland is that it now has normal problems. The Troubles, which cost some 3,500 lives in a province of less than 2m, are an unsettling memory; the devolved government in Stormont is stable, if dysfunctional. Ulster's big challenges are the same as those faced elsewhere in the West: thrashing out a budget, as it did this week, holding down state spending and luring business investment. The bad news about Northern Ireland is that these problems are simply enormous.

Ulster had an Irish recession with a British twist. Like its southern neighbour, a huge property bubble inflated there and then burst. Prices have fallen by 44% since 2007, wiping out construction jobs and forcing indebted households to cut back. Having grown faster than anywhere except London in the decade to 2007, Ulster has lagged behind ever since. By 2013 the region's gross value added (GVA), a measure of output, languished 13% below the pre-crisis peak. Yet the people of Ulster suffered surprisingly little. Unemployment peaked at around 8%—about half the high-est rate seen in Ireland.

For that, credit Ulster's colossal public sector. This employs nearly one in three workers, compared with less than one in five in Britain as a whole. Public spending per person is higher than in any other region and has fallen only slightly in the past few years (see map). As in Scotland and Wales, university tuition is heavily subsidised and medical prescriptions are free.



Ulster folk do not even pay for water. Because tax revenues are also low, Northern Ireland runs a mammoth budget deficit estimated at 33% of GVA. The debate that gripped Scotland last year, over whether the country would be better off independent, is unimaginable there.

Much of this is a legacy of the Troubles: from the 1970s British governments poured in cash in an attempt to abate the violence. But it also reflects a tardiness in implementing the austerity demanded by the Treasury in London. Ulster's headline

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grant has been cut in real terms by 7% since 2010, but austerity has been so backloaded that the province is only just confronting its fiscal challenges. The public-sector head count, down by 14% in Britain as a whole, has barely fallen. Welfare reforms enacted elsewhere are yet to be implemented.

The delay in cutting was a deliberate choice to support the economy through the downturn, says Arlene Foster, Northern Ireland's enterprise minister. Others argue that Ulster is simply ill-equipped to make tough choices. In recognition of sectarian divisions, the government in Stormont consists of a mandatory five-party coalition (though in reality the Democratic Unionist Party and the nationalist Sinn Féin are the parties that matter). Twelve government departments serve 1.8m residents, whereas Scotland makes do with six departments for a population nearly three times as big.

The problems do not just stem from bloated government. Ulster's citizens are simply not yet used to mature debates over spending, argues Professor Neil Gibson of Ulster University. Newspapers are filled with disputes over flags, marches and history. The region lacks economic think-tanks—unsurprisingly, since economic policy has consisted of maximising the block grant from London and doling it out.

But this is at last beginning to change. A long political dispute—partly over issues of identity and history, partly over welfare reform—had imperilled budget negotiations. Agreement was finally reached in late December (the Treasury eased things along by granting Stormont some financial flexibility). Welfare reform will be implemented this year and the number of departments reduced. On January 19th Simon Hamilton, Ulster's finance minister, unveiled a budget that aims to reduce public-sector employment by 20,000—although the hope is to achieve this through voluntary redundancies. The OECD, a mostly-rich ►►



countries' club, will report on the efficiency of the public sector later this year.

Reducing Northern Ireland's dependence on the state is a bigger challenge, admits Mr Hamilton. But the province has some advantages. Ulster's universities churn out brainy graduates. Labour costs are low, and unlike the rest of Britain the region has a land border with the euro zone. Mr Hamilton and Ms Foster want to harness these strengths to attract more foreign investment. The region has made a start. Multinational services companies such as Baker McKenzie, a law firm, have arrived. Fujitsu, an IT company, is expanding its operation in Derry (Londonderry, unionists call it). Fifty new foreign direct investment projects were secured in 2014.

Stormont argues that it could attract more investment were it not for Britain's corporation-tax rate, which at 20% is well above the 12.5% levied by Ireland. Ms Foster thinks this is a particular disadvantage when it comes to attracting technology firms, which have been notoriously keen to take advantage of low tax rates in Dublin. As part of the deal reached in December, the power to vary corporation tax will be devolved in 2017.

If Ulster wants to match or undercut the Irish rate, though, it will have to find more cuts elsewhere in its budget. Stormont will lose revenue in the short term and will also have to compensate the Treasury for any decline in the British tax take resulting from firms crossing the Irish Sea. Unions are already denouncing what they fear will be a handout to international fat cats. Others point out that it took decades for Ireland's low-tax regime, introduced in the 1950s, to draw much investment. But capital is more mobile today, so Ulster may catch the eye of investors more quickly.

Whatever is decided will be the result of the first proper economic policy debate Northern Ireland has seen. Eventually, a bigger private sector might allow the province to sustain Scandinavian-style high public spending funded by other local taxes, even if London begins to withdraw its subsidy. Scotland's independence referendum has provoked much scrutiny of spending disparities—a hint of what may lie in store for Ulster as the era of spectacular violence lapses into the past.

If it can rise to its short-run challenges, the case for handing more of the levers of economic policy to Stormont is strong. The past decade has shown that Ulster's economy is structurally quite different from that of the rest of the United Kingdom. And politics cannot mature until Stormont bears more of the costs of its own spending decisions. Mr Gibson likens Ulster to a moody teenager learning to take responsibility for the first time. He hopes that one day an election will be determined by economic policy. When that happens, Ulster will have grown up. ■

## Anti-Semitism

# Be not afraid

Britain is nowhere near as anti-Semitic as is supposed

IN ONE Jewish school in London, pupils drill for a possible terrorist attack. A synagogue has cancelled a children's trip to Disneyland in France. Police and community groups have stepped up patrols in Jewish areas. After the murderous attack on a kosher supermarket in Paris on January 9th, British Jews are scared. Should they be?

Jews worried even before the killings. In a study of British Jews last year by the Institute for Jewish Policy Research (JPR), almost 70% said that they felt anti-Semitism had increased in the past five years. Considering the atrocities in Paris, it should come as no surprise that many Jews feel uneasy in a way that they have not for some time, says Ephraim Mirvis, Britain's chief rabbi. But he cautions against alarmism. Indeed: though some statistics suggest otherwise, anti-Semitism is not rising.

Research last year from the Pew Global Attitudes survey suggests that just 7% of Britons harbour unfavourable views of Jews. That is a little less than in France and much lower than in Italy or Greece, where the rates are 24% and 47% respectively. The figure in Britain has been fairly stable—hovering between 7% and 9%—for a decade, points out Daniel Staetsky of JPR. Levels of prejudice against Muslims are higher in

Britain, as in other European countries.

The Community Security Trust (CST), a charity that monitors anti-Semitic incidents, reckons that there were 529 in 2013, the lowest tally since 2005. None involved grievous violence. But the outfit reckons that there was an uptick in 2014. The first half of the year saw a 36% increase on 2013. Last July the CST recorded 302 incidents, its highest ever monthly total. London's Metropolitan Police say the numbers of hate crimes against Jews reported last year almost doubled, though they remain low.

That has much to do with events elsewhere in the world. Anti-Semitic incidents tend to track violence in the Middle East. A sharp rise in 2009 coincided with Israel's assault on the Gaza Strip. A rise in 2014 would coincide with Israel's summer incursion into Gaza. Criticism of Israel is not the same as anti-Semitism, and the CST is careful to distinguish between the two. But, the organisation points out, the former can be used to bash Jews more generally.

The CST also notes that many incidents occur around the Jewish high holy days, when more people are going to and from synagogues. In 2013 incidents most commonly involved public verbal abuse hurled at visibly Jewish people, including shouts of "Heil Hitler" and "fucking Jewish bastards". Changes in the demography of British Jews may exacerbate this. The *haredi*, or ultra-Orthodox, are a growing proportion of British Jews. Their clothes mark them out clearly as Jewish, as do the schools they attend and the areas where they live. As their numbers swell, abuse could increase, even as anti-Semitism more generally does not budge. ■



## Storm in a D-cup

For days, well-sourced reports had indicated that the *Sun* newspaper, bought by Rupert Murdoch in 1969, had at last bowed to political pressure and dropped its topless "page three" pictures. But they turned out to be a bust. On January 22nd readers opened their papers to find Nicole, 22, from Bournemouth, nipples waving proudly in the wind. This is proof, if any were needed, of the sheer cussedness of the Murdoch empire—and hints at the savage competition in the British newspaper industry. Sensing weakness in a rival, the smaller, cruder *Daily Star* had proudly rebranded its topless pictures as page three. Besides, free publicity is always good. But there may not be many more Nicoles.



# Bagehot | Multicultural and aggrieved

The government is right to lobby Muslims for better leadership. But it can do little



**E**VEN as Eric Pickles, the communities minister, was drafting a plea to British imams for stronger, moderate leadership on January 16th, some were demonstrating the need for it. In their Friday sermons, many condemned the Paris killings of the previous week. Yet their condemnation was often qualified. Though only a tiny minority are jihadist sympathisers, Britain's 2.8m Muslims are less temperate than they like to be considered.

In mosques in Birmingham, London, Derby and elsewhere, *Charlie Hebdo's* cartoons were condemned more fiercely than the massacre of its staff. In Birmingham and probably elsewhere, imams preached that the killers could not have been Muslims. Set aside the drivel put out by some British and American media after the killings—including a risible suggestion, aired on Fox News, that Birmingham is a Muslim city where infidels fear to go—and there is still cause to worry about the mood and drift of Britain's fastest-growing religious community.

This is the context in which Mr Pickles' amiable letter was sent. It praised British Muslims' contribution to society. It did not spell out, but might have done, that they are well represented in ecumenical groups, are starting to produce admirable role models—especially in sport—and that they are no more radicalised than other European Muslims. Relative to the size of their community, there are reckoned to be more Belgian jihadists in Syria than there are Britons. Nonetheless, Mr Pickles and his co-author Lord Ahmad, a Muslim peer, requested more help from the imams in “explaining and demonstrating how faith in Islam can be part of British identity”. That was also well judged.

British Muslims are diverse, in provenance and belief, and becoming more so, as immigrants from Somalia and Afghanistan dilute the existing South Asian stock. Many are prospering: the 50,000-strong Shia Ismaeli community is one of Britain's best-connected. Yet many Muslims are poorly integrated into the liberal mainstream, culturally and, in the ghettos of Birmingham and Bradford, actually. In the typically defensive attitude of Muslim leaders, they can also seem resolved to remain so. That is the context in which Mr Pickles' letter was received. “Is Mr Pickles seriously suggesting, as do members of the far right, that Muslims and Islam are inherently apart from British society?” tutted a spokesman for the Muslim Council of Britain, a large umbrella

group. Plainly, he was not suggesting that.

The Muslims living in the Sparkhill area of Birmingham, where Bagehot spent a day, are by their own admission a community apart. Sparkhill's population is less than 10% white and 70% Muslim. The Irish pubs and grocers that once dominated the area have mostly closed. A rare survivor, Bournes, a family purveyor of “Irish turnips” and Clonakilty pudding, stands out among the curry shops like a memsahib in a harem.

Bagehot finds this wonderful. It has made Sparkhill more colourful and no less welcoming or law-abiding than nearby white working-class areas. Yet the local leaders and businessmen he spoke to, working in jewellery and kebab shops, tended to view the Muslim preponderance as a problem.

They considered it indicative of British Muslims' failure to crack on—richer Hindus have dispersed to Birmingham's leafier suburbs. A couple also worried about the ignorance that introspection can breed, as reflected in the fact that around 40 Brummie Muslims are in prison for terrorism offences. That appears to make Birmingham Britain's likeliest place to be radicalised, noted Jahan Mahmood, an historian. Some worried about how Sparkhill looked to outsiders. “I can see how people might come here, freak out, and say, ‘England is not English any more’,” said Mohammed Ali, a local artist, over a plate of masala cod and naan.

If the poverty of Sparkhill's Muslims were the only reason for their inwardness, prosperity would fix it. Yet there are reasons—not least, Sparkhill's many flash motors and other displays of wealth—to suggest that cultural conservatism is another factor. It is especially evident among second-generation British Muslims who, having abandoned their parents' native language, food and clothing, often find in Islam a uniquely powerful immigrant identity. Mr Ali, a bearded 37-year-old whose relish for communal harmony coexists with conservative Muslim views, is a typical case. “Our parents were too busy working hard to think about religion much,” he says. “Our generation is saying: ‘I choose to be Muslim, this is how I make sense of the madness.’”

The suddenness of this cultural embrace shows. Britain's born-again Muslims often have a sketchy grasp of their religion, and can be gulled. “There is a lot of confusion,” said Sajid Iqbal, a Pakistani journalist who has spent over a decade observing his British co-religionists. “Extremists are not nearly so well recognised as they are in Pakistan.” And there are plenty of them.

## Getting their niqab in a twist

Over 40% of British mosques are run, and most British imams schooled, in the Deobandi tradition, which tends to be hostile to integration. Hence the spread of the *niqab*, which some Deobandi preachers consider obligatory for women, in places such as Leicester where it was until recently uncommon. According to WikiLeaks, the American State Department's former chief adviser on Muslim relations, Farah Pandith, considered Leicester's Muslim community the most conservative in Europe.

Such cultural conservatism is tolerated in multicultural Britain, and many Muslims appreciate it. “This is the best country, you are free to pray, free to go to the mosque,” said Lal Muhammad, an Afghan selling phone cards in Sparkhill. Nor, as the Paris attacks suggest, is France's unbending secularism necessarily superior. That suggests Mr Pickles' polite request was, though worth making, not terribly likely to succeed. The inwardness and resentment of too many British Muslims will endure—at least until the second immigrant generation gives way to the third. ■





Freedom of speech

## The sound of silence

AMSTERDAM, ISLAMABAD, LAGOS, NAIROBI AND PARIS

Reactions to the Paris attacks highlight threats to free expression around the world

IN 2011 *Charlie Hebdo*, a French satirical newspaper, was firebombed. Its editor, Stéphane Charbonnier, was asked if he could understand that moderate Muslims might have been offended by its cartoons of the Prophet Muhammad. "Of course!" he replied. "Myself, when I pass by a mosque, a church or a synagogue, and I hear the idiocies that are spoken in them, I am shocked." *Charlie Hebdo* kept publishing such images. On January 7th Mr Charbonnier and 11 others were murdered by radical Islamists for their "offence". The paper's actions were a sign of defiance. But they also reflect France's free-speech law, which protects commentary on religion, even when it insults or mocks.

The reason lies in French history. Blasphemy laws carried the death penalty before the 1789 revolution, but were scrapped in 1881 as part of a bloody struggle against the Catholic church. Such latitude is not granted to incitement to racial or religious hatred, which was made a crime in 1972, partly as a response to a rise in attacks on Algerians. Holocaust denial was outlawed in 1990, and "apology for terrorism" last year. There is a "fundamental difference", declared the French prime minister, Manuel Valls, in a speech to parliament on January 13th, between the "freedom of impertinence" and "anti-Semitism, racism, apology for terrorism, Holocaust denial".

Every country limits free speech. Some do so only to prevent immediate harms,

such as libel, violence or child pornography; others ban "hate speech" (offensive utterances against groups such as gay people or racial minorities) or blasphemy. In the wake of the Paris attacks, these differing approaches are colliding—both with each other and with free speech, which is in many places at best a wavering ideal.

Even in France, not all agree with the distinction drawn between "impertinence" and racism, Holocaust denial and the like. A poll published a week after the *Charlie Hebdo* attacks found that two-fifths felt that, since images of the Prophet offended Muslims, they should not be published. And some see double standards. In the *banlieues*, or outer-city estates, there were around 200 reported incidents of disruption in schools, mostly during a nationwide minute of silence on January 8th to honour the victims. How could a newspaper mock Islam with impunity, some Muslim pupils asked, but Dieudonné M'bala M'bala, a comedian with past links to Jean-Marie Le Pen of the far-right National Front, be arrested for apparently sympathising with the killers on Facebook? Along with dozens of others who commented on the attacks, mostly on social media, he has been charged with apology for terrorism. He faces up to seven years in jail.

Elsewhere in Europe, laws against hate speech can backfire by making free-speech martyrs out of provocateurs. In a Dutch parliamentary debate on January 14th on

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the Paris attacks, Geert Wilders, a populist politician, thundered that Islam must be eradicated from the Netherlands: "In every country where Islam is strong, it comes at the cost of freedom." For a decade he has been calling for bans on the burqa and the Koran, and an end to immigration by Muslims. Such a platform would seem at odds with his claims to support liberty and free speech. But he says Islam is a totalitarian ideology rather than a religion, and likens the Koran to Hitler's "Mein Kampf", which is banned in the Netherlands.

Mr Wilders has already been acquitted of charges of fomenting discrimination in 2011. The court ruled that criticism of religion, especially by politicians, should enjoy strong protection. But last year he prompted followers at a rally to shout that they wanted "fewer Moroccans". Over 6,000 people filed complaints. Last month prosecutors decided to take up the case, saying the words demonised a population group rather than criticised a religion. Mr Wilders will no doubt exploit his new trial for free publicity, as he did his last.

### So much for turning the other cheek

A startling contribution to the debate over freedom to offend came on January 15th, when Pope Francis told reporters that, though waging war in God's name was wrong, responding violently to one's religion being mocked or insulted was "natural". He likened such provocation to using a crude word about someone's mother, saying that if a Vatican official standing nearby were to do such a thing to him, he could "expect to get punched in the nose".

That was perhaps a moment of South American machismo from an Argentine pope—or a clumsily phrased attempt to express solidarity with Muslims offended by the cartoons, in the hope of calming inflamed tempers in the Islamic world. Car- ►►



toons depicting Muhammad published in 2005 by *Jyllands-Posten*, a Danish newspaper (later republished by *Charlie Hebdo*) sparked global protests, some of which developed into riots. In Nigeria, more than a hundred people were killed.

This time round Niger, a majority-Muslim former French colony sitting on the edge of the Sahara, has seen the worst violence. Protests against *Charlie Hebdo*'s unrepentant depiction of Muhammad on the cover of its "survivors" issue have caused the deaths of at least ten people and the burning of 45 churches. Hotels and bars have been razed to the ground, prompting speculation that Islamist extremists were among those inciting the mobs.

### Words that wound

Such mayhem is often whipped up by reference to blasphemy laws. Though these remain on the books in several European countries, they are rarely used. But in much of Africa, Asia and the rest of the world, they serve not only to silence irreligious utterances but, along with other limits on free speech, to ensure that hardline religious leaders support incumbents and to silence political opponents.

Even laws introduced to tamp down the most poisonous utterances can end up as a tool of repression. In Rwanda all discussion of ethnic culpability for the 1994 genocide that disagrees with the officially sanctioned version is banned. The stated reason is to avoid a resurgence of ethnic hatred. But critics say that the Tutsi-led government uses restrictions on free speech to crack down on dissent, whether from the Hutu majority or not.

Among the dozens of world leaders condemning the Paris attacks was Goodluck Jonathan, Nigeria's president. Nigeria's constitution guarantees freedom of expression and of the press, but laws against sedition, civil libel, criminal defamation and the publication of false news are used to protect the elite from criticism, says Jennifer Dunham of Freedom House, an American lobby group.

Comment on the government's weak response to Boko Haram, an Islamist insurgent group inflicting terror on the country's north-east, is also stifled. Terrorism and national-security laws have been used to enter offices, seize print runs and detain journalists. Several international news organisations have reported that journalist visas are hard to get, as criticism mounts in the run-up to next month's elections.

Laws against blasphemy and statements that could inflame religious conflict make it hard to criticise Nigeria's religious leaders and encourage self-censorship. *Sharia*, or Islamic law, adopted in most of the predominantly Muslim north is even stricter. "Journalists don't even think of speaking about controversial religious issues there," says Lai Oshisanya, a lawyer.

### The flogging of a Saudi blogger

## Victim of hypocrites

CAIRO

International outrage halts Saudi punishment—but for how long?

THE Middle East is a black spot for free speech. Its countries come near the bottom in rankings of press freedom, and most criminalise blasphemy and apostasy (renouncing Islam). But even by such dismal standards, Saudi Arabia stands out. Penalties for transgressing its religious and political strictures, even in word, include hefty fines and jail sentences, beatings and beheadings. Human Rights Watch, a monitoring group, notes a surge in executions since August. By some counts at least ten people have been put to death so far this year.

Has the kingdom finally gone a step too far? On January 16th the authorities said they would delay the second round of lashes for Raif al-Badawi, found guilty last year of insulting Islam on his blog.

His calls for greater liberty in politics and religion earned him a large fine, ten years in jail and 1,000 lashes, to be administered weekly, 50 at a time. A charge of apostasy, which carries the death sentence, was dropped.

Medical reasons were cited for the delay: the wounds from Mr Badawi's first flogging, on January 9th, had yet to heal. But Saudi-watchers reckon international pressure played a bigger part. Critics in several countries drew parallels with the *Charlie Hebdo* attacks. Both were violent retaliation for perceived insults to Islam: one carried out by radicalised youths inspired by Islamist terrorists, the other by a fundamentalist state. Others condemned the hypocrisy of the Saudi ambassador to France marching in Paris to express solidarity with the murdered journalists—two days after Mr Badawi was taken from his prison cell and flogged in a town square in Jeddah.

King Abdullah is thought to have referred Mr Badawi's case to the Supreme Court, which may be a face-saving way of lightening his punishment. But the blogger will not be the last to suffer for speaking out. Though some Saudis long for greater political and religious freedom, many, like the clerics who prop up the ruling Al Saud family, demand heavy-handed enforcement of the strict Wahhabi school of Sunni Islam.

In recent days America and Britain have spoken out against Mr Badawi's treatment. But for the most part, when it comes to free speech in the world's biggest oil supplier and a valued ally against the jihadists of Islamic State, Western governments tend to hold their tongues.



French lessons

"You'd probably be killed before it got to prosecution."

Pakistan's shadowy web-censors also crack down on any questioning of Islam—as well as criticism of the army. YouTube has been banned since the uploading in 2012 of "Innocence of Muslims", an amateurish 14-minute film combining footage of Muslims attacking Egyptian Christians and depictions of Muhammad as a lecherous thug.

Junaid Hafeez, an academic accused of links to Facebook pages where religion and politics were discussed, is facing trial under blasphemy laws that human-rights groups describe as a tool to wage vendettas, persecute minorities and whip up mobs. Even defending the accused is dangerous. One lawyer, who received threats

when he took up Mr Hafeez's case, was murdered in his office in May. His successor was attacked last month.

The ease with which blasphemy can be alleged makes discussing Islam treacherous, even for those who may be thought able to avoid slip-ups. Junaid Jamshed, a former pop star turned hardline preacher, is unable to return to Pakistan after being accused of mocking one of the Prophet's wives in a throwaway remark about the weakness of women. Newspapers avoid giving the detail of such cases, for fear of repeating the blasphemy: one described Mr Jamshed's alleged offence as "uttering shameful words against holy personalities". When it is risky even to report on restrictions to free speech, there is little left for the censors to do. ■





### Foreign investment in Africa

## A sub-Saharan scramble

**Private-equity investors are getting hot for Africa. Businesses there need all the capital on offer, and more**

WHEN Paul Kavuma began approaching private companies in Africa a decade ago to suggest investing in their businesses and improving the way they were run, he was often shown the door. "They were offended, asking if I thought they were broke," says the founder of Catalyst Principal Partners, an east Africa-focused fund manager. Even when, after hours of explaining the merits of private equity, Mr Kavuma changed business owners' minds, many still struggled with the idea that within a few years he would sell the stake he had bought. "When we exited, some people thought we had lost confidence in them, rather than that we'd finished what we'd come to do," he says.

Today, much has changed. African entrepreneurs now boast about being approached by one of the many private-equity investors scouring the continent for opportunities. And it is the financiers, or at least those from beyond Africa, who are having to adapt. Money managers on Wall Street and in the City of London are taking crash courses in Swahili and learning to find Ouagadougou on a map.

A decade ago, African countries were among the beneficiaries of a broader boom in investment in emerging markets worldwide. The financial crisis of 2007-08 put paid to that. Now, many private-equity funds are making Africa a primary target, and record amounts are being raised to invest in businesses there (see chart 1). On

January 12th Helios Partners, a London-based firm, said it had raised the first Africa fund worth more than \$1 billion. Abraaj, a rival, is expected to follow suit soon.

In some respects it is no surprise that Africa has become such a popular destination for business investment. It certainly needs more capital—an extra \$90 billion a year for infrastructure alone, the World Bank reckons. Consumer demand is growing, and industries are being liberalised. A few years ago people would ask "Why the hell are you in Africa?" says Robert van Zwieten of EMPEA, an industry body. Now they ask "Why the hell aren't you?"

Such signs of groupthink are worrying enough in themselves. And there are plenty of other reasons to be sceptical about the

current enthusiasm for Africa. Beside the "frontier market" risks private-equity investors will face—bullets, corruption, disease—they often struggle to find deals big enough to interest them. Large funds usually want to buy businesses worth more than \$100m, but last year there were only seven such deals, and about half the firms bought were worth less than \$10m.

Even when a potential deal is identified, family owners are often unwilling to relinquish control and incumbent managers are reluctant to make room for newcomers. Since banks still see Africa as full of risks, it is also difficult for private-equity firms to load a newly acquired business with debt, their usual technique for magnifying their returns. Another of their customary practices—selling a company after about five years of expanding it and improving its performance—is also hard. Local partners are often unwilling to sell, and undeveloped or non-existent local stockmarkets make it hard to unload a stake by means of a listing.

The private-equity managers who have done well so far have had to put boots on the ground and exercise more care and patience than is typical in their industry. "There are not many \$100m deals for sale, but plenty of \$100m opportunities to bolt together," says Hurley Doddy of ECP, a pan-African investor. Tope Lawani of Helios agrees that investors who complain about a paucity of big deals lack imagination. His fund pieced together Helios Towers, a big pan-African operator of mobile-telecoms masts, from smaller businesses.

One thing successful managers agree on is that investors should not expect to fly in, do a deal and fly out again. The funds that are doing well are those with a strong understanding of local conditions and good business connections in their target countries, such as Catalyst. It looks for mid- ▶▶

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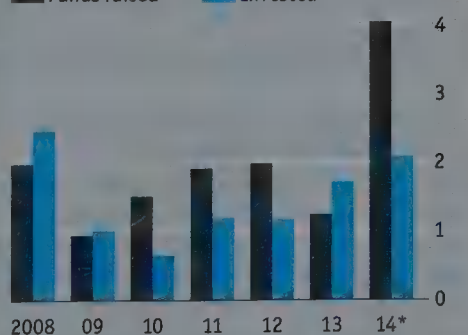
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### Here comes the money

Private equity in sub-Saharan Africa, \$bn

Funds raised

Invested



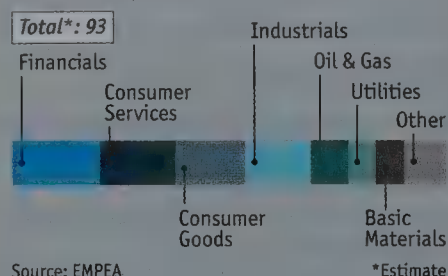
Source: EMPEA

\*Estimate



## Into everything

Private-equity investment in Africa by sector  
Number of deals, 2014



it rapidly into neighbouring countries.

Since such firms are not easy to find, and since it takes patience to expand them across a continent with so many languages, cultures and legal systems, private equity's usual practice of selling after about five years may not always be best suited to Africa. Ahmed Heikal of Qalaa Holdings, an Egyptian firm, has concluded that it is not. His firm has abandoned the private-equity model and now follows a strategy of buy, improve and hold. When you finally come across a promising asset, why sell it prematurely, he asks?

Mr Heikal says he is already doing well from his investment in Rift Valley Railways, a rail line from Kenya to Uganda. But he is more interested in its long-term potential to be one of the region's main routes for transporting oil. His firm's 15-20-year planning horizon means he is happy to sit and wait for this potential to be realised.

Despite the recent flurry of fund-raising, only about 1% of global private equity goes to Africa. Even so, too much money is pouring into too few funds, chasing the few big deals on offer. Besides, with commodities tumbling, currencies stumbling and political unrest rumbling, Africa's sunny growth projections have become more tempered. This is no bad thing, say some fund managers: it will scare off fair-weather investors and bring down the prices of overvalued businesses.

Those brave enough to run the risks will need to roll up their sleeves and look for opportunities beyond those firms listed on their Bloomberg terminals. Those who know their Mali from their Malawi, and Mauritania from Mauritius, will be better placed to succeed in the scramble for African businesses than those who do not. ■

## Foreign firms in China

# You're still welcome

DAVOS

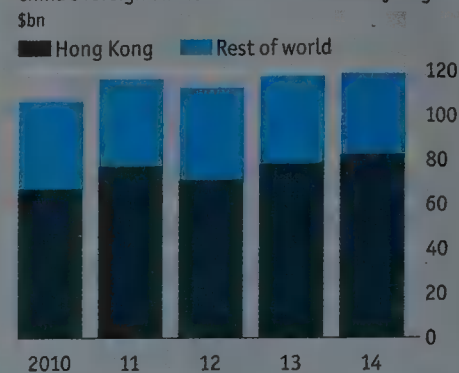
The country's leaders seek to reassure nervous foreign businesses

THE bosses of foreign firms with operations in China grumble that their lives have got harder of late. China used to be a frontier market offering endless double-digit growth. Officials put out the welcome mat, and were open to wining and dining. Regulators were no more bothersome than in other emerging markets.

Now, growth is slowing: official data released this week confirm that the economy grew by 7.4% last year, the slowest rate in 24 years. A crackdown on official corruption has made it impossible to win friends in government. And antitrust authorities have taken a tough line with foreign car-

## Still coming in

China's foreign direct investment inflows by origin



► sized companies (worth \$5m-20m) that cater to the emerging consumer in east Africa, such as ChemiCotex, a maker of toothpaste and other toiletries it bought in 2011.

Much early investment went into businesses based on fixed assets, such as mobile-phone masts. Now retailers, packagers, restaurants and payment systems are sought after (see chart 2). In 2012 ECP invested in Nairobi Java House, a Kenyan coffee-house chain, and has since helped it to build Planet Yogurt, a group of frozen-yogurt outlets. In 2013 Helios bought 1,600 franchised Shell petrol stations across sub-Saharan Africa, not just to get into the fuel business but also to develop the convenience shops attached to the stations.

Some private-equity money is going into private health clinics and educational institutions such as universities. In much of the rich world, bringing the profit motive into public services is controversial; in Africa, where there is so much unmet need for such services, there is less of a taboo. In general, African entrepreneurs have begun to appreciate how private equity can help their businesses expand and, by improving such things as internal auditing and book-keeping, make them more robust. The rich world's negative association of private equity with asset-stripping "vultures" does not apply here.

Often, those African firms bought by private equity had been relatively well-run by their founders, albeit in a rather seat-of-the-pants fashion. The incoming investors can often boost their performance by, for instance, improving the measurement and analysis of data. They can also provide cash to modernise businesses and make them more efficient. For example, investors in IHS Towers, another big operator of telecoms masts, found that it could cut the \$3,000-4,000 average monthly cost of operating masts by almost one-third, by updating their diesel generators or replacing them with solar panels.

The sort of business that investors are keenest on is one that is already a champion in its home market and has prospects of becoming a regional or global champion. Carlyle, an American private-equity firm with a \$698m pot devoted to Africa, is buying a majority stake in South Africa's largest tyre retailer, Tiger, and plans to expand

makers, drugmakers and other firms that had hoped their *guanxi* (connections) offered them protection. Many foreign bosses are now convinced that the golden age for multinationals in China is over.

That may explain the charm offensive the government launched this week. The prime minister, Li Keqiang, led a delegation of Chinese worthies to the World Economic Forum's meeting in Davos, Switzerland. He promised the assembled global business elite his country would "treat Chinese and foreign companies as equals" and "rigorously reject protectionism".

Ahead of his speech the government unveiled a dramatic proposal to ease its restrictions on foreign investment. Over the past two decades, China has maintained a highly restrictive, complex set of rules on how foreigners can invest on the mainland. In the many industries deemed "strategic", for example, they must invest only through a joint venture and must transfer technology to the local partner. Flows of funds in and out of the country are also tightly controlled.

The draft reforms, which are now open for comment, include scrapping almost all of these cumbersome controls. Foreign firms would supposedly be treated the same way as national ones. The clunky system of case-by-case approvals will be replaced by a simpler "negative list": if your industry is not on it, you do not need permission to invest. Daniel Roules of the Shanghai office of Squire Patton Boggs, an American law firm, believes the new law—if and when it comes into force—could usher in a significant and welcome change in the climate for foreign firms.

Mr Li is also pushing for bilateral investment treaties with the United States and the European Union, which could further reassure foreign investors worried about putting more money into China. His boss, Xi Jinping, agreed a sweeping free-trade agreement with Australia on the heels of the recent G20 summit in Brisbane. This provisional deal, which must now be ratified, goes much further than previous accords in opening up China's service industries to foreign investment. ►►



Taken together, say optimists, there could yet be another golden age for foreign direct investment (FDI) into China. A recent report by King & Wood Mallesons, China's biggest law firm, forecasts that FDI could reach \$188 billion in 2020, up from about \$120 billion last year.

Nevertheless, foreign businesspeople should not break out the champagne yet. The proposed reforms are a strong signal that foreign money will continue to be welcome in China. However, they may do

nothing to help foreign-owned firms compete on equal terms with politically well-connected domestic ones, to end the subsidies lavished on state-backed enterprises, or to rein in regulators keen on bashing outsiders. The areas of business most tempting for foreigners, such as finance and the internet, will still have restrictions on foreign ownership. If China's leaders were to take on all these distortions, then they would get a far warmer round of applause at their next Davos appearance. ■

## America's oil industry

# The tough get going

HOUSTON

**Amid the gloom and cutbacks in the industry, the strong will get stronger**

**P**RIDE of place in this week's Houston Auto Show goes to "Texas Edition" trucks: hulking vehicles, selling for \$50,000 and upwards, specially designed for the Lone Star state's expansive tastes. Allout Offroad customises them further, lifting the chassis to fit outsize wheels and tyres. They are selling "like crazy", says the firm's boss, Chance Kamp. "People can afford to put gas in them now."

Houston, America's fourth-largest city, is poised between the joys of cheap fuel and the pain of the industry which produces it. Dave Lesar, chief executive of Halliburton, which provides drilling and pumping services, says its customers are cutting spending by 25-30%. On January 21st BHP Billiton, a giant miner and oil producer, said it would cut the number of its onshore oil rigs in America by 40%. A so-far modest fall in the total number of active rigs (see first chart) is set to accelerate.

A survey of 225 companies by Barclays, a bank, forecasts that if crude settles in a range of \$50-60 a barrel (it was below \$50 in the middle of this week) the industry worldwide will cut its capital spending by 50% this year, to around \$620 billion.

Consolidation has been under way for months. Last year, before the oil price's latest tumble, Halliburton, which is the world's second-biggest oil-services firm, agreed a merger with the third-biggest, Baker Hughes. The intention is to save \$2 billion a year in costs. Both firms announced strong profits on January 20th, while warning of hard times ahead. Baker Hughes said it would cut 7,000 jobs and a fifth of its capital spending; Halliburton has already cut 1,000 outside America, and says it will shed more labour at home in the weeks ahead. Total, an integrated oil giant from France, this week said it would speed up a cost-cutting programme.

No one doubts that a crunch is coming.

The question is who crunches whom. The crunchers will be companies with strong balance-sheets, diversified businesses and the foresight to have hedged their production (selling this year's production at last year's prices). The crunched will be debt-laden firms with a narrow base, high costs and a risky business model—such as some natural-gas frackers, whose output is now selling for less than the cost of production. As weaker firms have their credit ratings downgraded and lose access to finance, the prospects for those businesses' lenders, as well as their shareholders, is the subject of much gossip in Houston.

Oilmen are used to such ups and downs. In the skyscrapers of Houston, few would deny the scope for savings. "There's plenty of fluff in the system," says Scott Nyquist of McKinsey, a consulting firm. When prices were high, costs mattered less than keeping output up. Suppliers asked, and got, top dollar. The Katy school district near Houston struggled to find drivers for its buses: there was better-paid work on offer in oil-related firms.

For those who can afford to, now is a

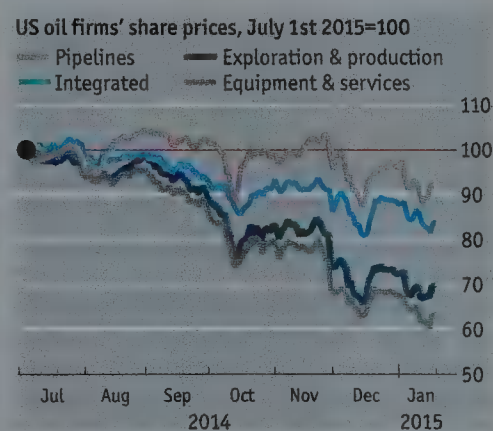
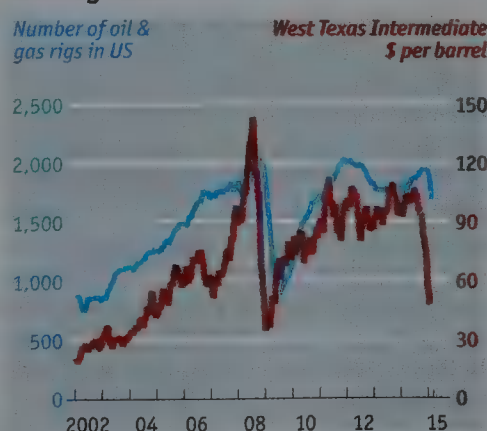
good time to buy. Schlumberger, Halliburton's largest rival, has cut 9,000 jobs and announced \$1.8 billion in write-downs, but it has also just bought nearly half of Russia's biggest onshore driller, Eurasia Drilling, for \$1.7 billion. The Russian company's share price had crashed as a result of the oil-price fall and Western sanctions. To signal its confidence, Schlumberger also raised its dividend by a quarter and said it would continue a share buy-back scheme.

Technology is continuing to change the industry's economics. Halliburton is pushing ahead with upgrades to the equipment and techniques it uses at drilling sites, including improvements to pumps and storage systems. All this, the company says, can cut a typical well's capital spending by a quarter, maintenance by half, labour by a third, and development time by more than half, compared with the previous approach. So far 30% of its North American operations have been upgraded. The aim is to reach 50% by the end of the year.

Such new techniques, and falling costs for everything from rigs and pumps to steel and labour, are helping the drillers who are still in business. "We used to think everything worked at \$80-85 per barrel. Now it's \$70-75," says R.T. Dukes of Wood Mackenzie, an energy-consulting firm. Looked at another way, he says, two-thirds of the shale drillers needed oil at \$70 to break even. Productivity gains and lower costs have now pushed that down to \$60 (though that is still uncomfortably higher than this week's crude price).

Share prices are sliding (see second chart) but gloom is surprisingly scant in Houston. Oilmen expect supply to tighten by the end of this year: output may decline in mature fields; American shale-oil production may slip back; and there is always a risk of turmoil in some foreign oil province. "Excess supply is just 3-4% of global production," notes Mr Nyquist. Not much has to happen for prices to recover, when fortune will reward those who spent money wisely during the downturn—or so they hope. So when the going gets tough, the tough go shopping. ■

## Drilling down







## Italian football

# More than just trophy assets

MILAN

The country's largest clubs are belatedly becoming more businesslike

FOR all their fans' passion, Italian football clubs struggle to make profits. In the 1990s Italy's Serie A was the most glamorous and high-profile of Europe's five main football leagues; it has since fallen, in revenue terms, from second to fourth place. In this year's Football Money League, published on January 22nd by Deloitte, a consulting firm, three of the four Italian clubs in the worldwide top 20 dropped at least one position. However, there are signs of a turnaround in the clubs' fortunes.

Italy's league fell behind its peers partly because of the complacency of clubs' owners. Tycoons treated them as trophy assets more than businesses. The clubs suffered chronic losses and corruption scandals, and their stadiums were left to decay. But Italy's sustained economic downturn and the introduction by UEFA, European football's governing body, of rules to stop clubs habitually spending more than they earn, have been among the main reasons why a number of clubs have changed hands. Foreign investors are trickling in.

For those seeking to turn around a club's finances, one of the most important tasks is to boost match-day takings, which account for 11% of total revenues in Serie A, compared with 23% in both the English Premier League and the German Bundesliga. That means improving the match-day experience. However, few Italian clubs own the stadiums they play in, and unlike in Britain and Germany, where official encouragement and incentives have led to stadiums being upgraded, Italian ones largely remain in a poor state.

There is plenty of money coming in from television: the amount that broadcasters pay to show Italian football matches is second only to that in England. How-

ever, Italian clubs are missing a few other tricks. For instance, they do not get much from renting out VIP boxes at their grounds on match days: Italian businesspeople tend to take clients to dinner or the opera; and to persuade them to start bringing them to football matches, the facilities at grounds would need to be improved. Also, unlike England's top clubs, Italian ones have not been good at conning their fans into buying overpriced team strips.

But the tide could turn soon. Italy's top performer is Juventus, owned by the Agnelli family, whose forebears founded Fiat. The Turin-based club opened a new, 41,000-capacity stadium in 2011; it has since more than trebled its match-day revenues. Two other teams, Sassuolo and Udinese, have since embarked on revamping their stadiums, and AS Roma plans to build itself a new home on the outskirts of the eternal city.

Efforts are being made to earn more from foreign sources. Over the past five years the Supercoppa, the opening match of the season, has been played three times in China and once in Qatar. AS Roma, bought by a group of American investors in 2011, has since struck a ten-year kit-sponsorship deal with Nike. In 2013 Erick Thohir, an Indonesian businessman, acquired 70% of Inter Milan, bringing in a clutch of foreign executives to boost the brand globally: of Inter's 280m fans, 60% live in Asia, including 18m in Indonesia.

Harry Philp of Portland Advisers, a consulting firm which advises on sports infrastructure, predicts that more Italian football teams could soon be welcoming foreign investors. Their expertise in running a profitable business will be as welcome as their money. ■

## Telecoms in Myanmar

# Mobile mania

BAGO AND YANGON

One of the last great "unphoned" territories opens up

ON THE outskirts of Bago, a scruffy town in southern Myanmar, a tall, pale Scandinavian-looking man squints up at a four-legged telecoms mast that has recently sprouted next to a mud track. He is Petter Furberg, the boss of the Burmese operations of Telenor, a Norwegian mobile-telecoms operator. He concludes that more towers will be needed to provide the town with adequate coverage, and asks his contractors to put up some more. The job done, Telenor switched on its service in Bago on January 13th.

Myanmar, with a bigger population than Spain, is one of the last great "unphoned" countries. In 2013 its military-backed government invited bids for the right to build its first modern mobile networks. The services that Telenor and Ooredoo, a Qatari rival, began to roll out last year are a crucial step towards reanimating an economy anaesthetised by five decades of dictatorship. Studies by Ericsson, a network-equipment supplier and McKinsey, a consulting firm, suggest that Myanmar's mobile roll-out could create more than 90,000 new jobs and help to sustain annual economic growth of 8%-plus.

Locals once paid \$1,500 each for SIM cards raffled by the state network, and coverage was scant. Now a SIM costs just \$150, and new towers are popping up everywhere. Myanmar Posts and Telecommunications, the state-run incumbent, is transforming itself in partnership with KDDI and Sumitomo, two Japanese firms. Yata-narpon, a domestic provider of fixed-line telephony, will soon join the brawl in partnership with Viettel, a mobile-service provider from Vietnam.

In contrast to India, where price wars among around a dozen operators have sapped their ability to invest in increasing penetration rates, Myanmar is betting that having four participants will provide just enough competition, while making it attractive enough for the operators to invest in the roll-out. The plan is that within five years the four operators will between them be reaching 90% of the population.

Since Telenor lost its domestic monopoly in the 1990s it has rediscovered the Viking spirit of adventure, launching into foreign markets ranging from Bulgaria to Bangladesh. It now has about 180m customers in 13 countries and, through a stake in VimpelCom, a Russian operator, a foothold in another 13 countries. But this is the first time it has gone up against Ooredoo, a



brash outfit owned by the government of Qatar. Known for years as Qtel, Ooredoo did not venture abroad until 2005. It is now one of the world's fastest-growing mobile firms, with 90m customers, mostly spread across north Africa and the Middle East, including Iraq and the Palestinian territories.

Ooredoo has started with gusto. Its noisy headquarters in Yangon, Myanmar's commercial capital, already has more than 1,000 staff. The firm has rented billboards across the city and sponsored the national football league. It boasts that it is offering whizzy "3G" data services throughout its network, bringing fast internet to people who have never before owned a phone.

Telenor's approach is leaner. Its share price dipped when its bid was accepted, as investors digested the risks. The firm has since promised to complete the roll-out with little more than \$1 billion of capital, and pledged that the venture will break even in three years. It has hired only half as many people as Ooredoo, and in some places it will start by offering only slower "2G" services. Mr Furberg argues that many Burmese cannot yet afford 3G handsets. When they can, upgrading services will not cost much.

For now neither company is struggling to attract customers. Ooredoo signed up 1m people within three weeks of launching in Yangon; Telenor snagged half a million in one day. The promotional umbrellas they have been giving away—red for Ooredoo, blue for Telenor—now shelter hawkers and tea shops on every corner.

This invasion adds to the sense of a city facing enormous change. Women still staff the metal telephone kiosks which dot its pavements, guarding grubby wired handsets, but SIM sellers now outnumber them. A teenager peddling SIMs from behind a white plastic table says he is making around 20,000 kyat (\$19) a day, more than many taxi drivers earn.

The roll-out will bring social upheaval. Ross Cormack, Ooredoo's boss in Myanmar, reckons the number of Facebook users there has roughly doubled since his network launched. Ooredoo has promised to give free tools and training to 30,000 rural women to help them sell SIMs and airtime to their neighbours. Romain Caillaud of Vriens & Partners, a political and business consulting firm, says smartphones are already helping small farmers to improve productivity and outwit grasping middlemen by checking price information online.

For other foreign firms mulling an entry to Myanmar, the mobile roll-out illustrates some of the trials they may face. Ooredoo has weathered a boycott proposed by hardline Buddhists who fear the Qatari firm will somehow embolden Myanmar's Muslim minority. Telenor has sometimes had to stop the contractors building its towers from using child labour. Exorbitant commercial rents in Yangon, on a par with

## Publishing

# Spotify for books

NEW YORK

Authors and publishers may constrain the rise of e-book subscriptions

**"B**EWARE of the person of one book," said Thomas Aquinas, a medieval friar and author. The risk of encountering such unscholarly types is rarer in modern times. Digital devices can hold dozens of e-books, so people can carry around a whole shelf of reading material with them. Now a new crop of e-book subscription companies is offering bibliophiles the chance to consume as many books as they like, from a huge range of titles, for a flat fee of around \$10 a month.

It is a bit like having a whole lending library in your pocket—but with no need to return the books. In America the main providers of e-book subscriptions include Amazon, Oyster and Scribd. Similar companies have sprung up in Spain, Scandinavia and China. Their reach is limited so far, but it is growing. Around 4% of book buyers have tried an e-book subscription service in America, according to Nielsen, a research outfit.

The subscription model has already taken off in music and television, with

providers such as Spotify and Netflix. Consumers have shown an increasing preference for such all-you-can-eat bundles, as opposed to buying each item separately. That worries book publishers and authors, who still make most of their money from sales of single copies. So far they have approached subscription services cautiously, holding back their newest and most popular titles from them. Only three of America's five biggest publishers have so far made their works available on Oyster or Scribd.

Most subscription services have agreed to pay publishers each time a reader gets a certain way into a book—typically around 10%—and the fees are about the same as if they had sold it as a one-off download. This makes the subscription services' business model similar to that of gyms, says Andrew Rhomberg, an e-book expert: they are relying on lots of people signing up but not making much use of the service.

The record companies tolerate music-streaming services like Spotify, which pay them only modest fees, because the alternative is a continued rise in music piracy—on which they earn nothing at all. However, piracy of e-books is not such a problem: it is perfectly feasible for publishers to keep back some titles from subscription services and make money by selling individual copies of them.

So unless the e-book market changes in unexpected ways, subscription services may have only a limited impact on consumer-book publishing. Subscription may prove most popular in niches such as children's books: parents may sign up their offspring, hoping that a broader choice will make them read more. Those with younger children may welcome not having to read out the same few books repeatedly at bedtime.



A world of books at your fingertips

those in Singapore and Manhattan, have forced some of the firms' foreign suppliers to base themselves outside the city. The low capacity of fibre-optic cables in and out of the country inhibits the growth of data services of all types.

Getting permission to build telecoms towers is a persistent problem. Telenor and Ooredoo will probably each need about 8,000 base stations to cover the country, of which they have as yet built only a fraction. In some places the volume and complexity of applications has overwhelmed local planning authorities. In others officials have delayed approvals in the hope of

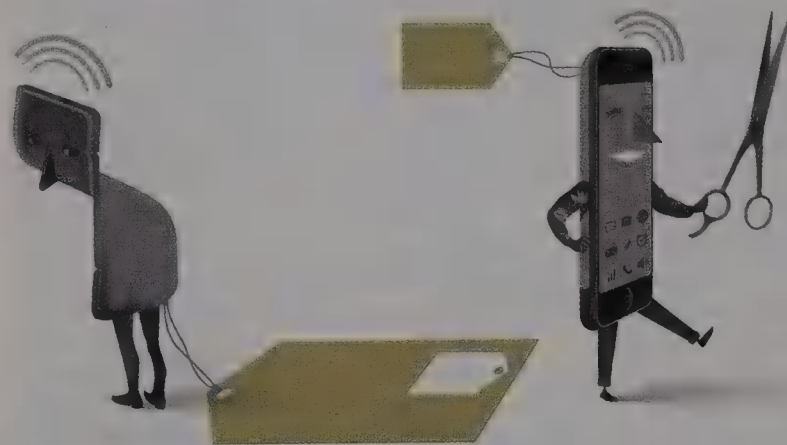
receiving a bribe. Then again, the two firms have made things harder for themselves by failing to share their towers, as they had said they would.

However, the biggest challenge for Myanmar's mobile firms is meeting the overwhelming demand from consumers starved of modern luxuries for the past half-century. On its launch day, Ooredoo received more than 800,000 calls to its customer-support centre, many times more than it could answer. Telenor's Mr Furberg says he cannot go anywhere without hearing the same two demands: more network coverage and faster speeds. ■



# Schumpeter | Cheap and cheerful

After some teething troubles, frugal innovation is on the rise



VICTOR HUGO once said that “nothing can stop an idea whose time has come”. He failed to add that a lousy product launch can delay it. In the first decade of this century it seemed that frugal innovation’s time had indeed arrived: to meet surging demand from new consumers in emerging economies, innovative firms in those countries were stripping products of their frilleries and cutting their cost drastically. The new world had at last produced a big, new management idea.

Then along came the Tata Nano. The \$2,000 car bore the imprimatur of one of the emerging world’s best companies. But some of the earliest Nanos burst into flames. Although Tata Motors fixed its engineering problems, aspirational Indians made it clear that they did not want to be seen driving “the world’s cheapest car”. Frugal innovation looked as if it might go from promising to passé without having made any impact.

In a new book, “Frugal Innovation: How to Do More with Less”, Navi Radjou, a consultant, and Jaideep Prabhu, an academic at Cambridge University’s Judge School of Business, reassure readers that this is not the case. (Its publisher, Profile, has a business relationship with *The Economist*, but neither of the authors has any editorial relationship.) Frugal innovation has not only continued to advance in the emerging world. It is also conquering a rich world in which a financial crisis and recession have been followed by a spell of stagnant household incomes and, in parts, persistently high unemployment.

Some of the West’s biggest multinationals are designing no-frills products in developing countries with the intention of selling them in developed ones, too. General Electric designs affordable medical devices in India and China. Renault-Nissan has a centre for frugal engineering in India. The carmaking group sells a variety of no-frills cars built in low-cost countries, including Dacia models made in Romania and Datsuns made in Indonesia.

Sales teams accustomed to the fat commissions from selling full-price products are hardly going to be keen on pushing frugal ones. So companies such as Renault and Procter & Gamble have created separate sales departments for their no-frills lines. In some cases they are using new distribution channels to reach impecunious consumers: American Express, for example, is marketing Bluebird, a low-cost current account, through Walmart stores.

Companies are realising that the “fortune at the bottom of the pyramid” is not just to be found in poor countries. Vianney Muliez, the boss of Auchan, a big French retailer, says that “there are many ‘emerging markets’ within Western economies that we are eager to serve.” Walmart has opened hundreds of “money centres” in its stores, offering cheap financial products such as Bluebird to low-income customers. Costco, another big American retailer, now sells a range of cut-price medical devices, such as a \$34.99 blood-pressure monitor.

Western firms are adopting frugal business practices pioneered in the emerging world. Bharti Airtel, an Indian mobile-phone operator, is able to offer remarkably low prices in part because it shares wireless towers with other providers. Among rich-world firms inspired by the idea of cutting costs by sharing infrastructure, Ericsson and Philips are working together on projects in which mobile-phone antennae are embedded in streetlights in European cities. And Hershey and Ferrero, two confectioners, are sharing warehouses and vehicles in North America.

As part of their frugal-innovation strategies, some rich-world companies are “crowdsourcing” product-development ideas from their customers and workers. Ford has converted a Detroit warehouse into an innovation centre where employees can spend their spare time experimenting with new technologies. Having at first gone into a defensive crouch when hackers tried to improve Kinect, a motion sensor for its video games, Microsoft decided to co-operate with them to solve problems its own researchers had not yet turned their attention to.

## Ideas from everywhere

Messrs Radjou and Prabhu are right that a frugal revolution is sweeping the rich world. But they sometimes give the East too much credit for leading the way. The West led the frugal revolutions in low-cost airlines and discount supermarkets. It is also pioneering the use of digital technology to replace expensive physical plant and to help people share resources. The Khan Academy, founded by Sal Khan, an American entrepreneur, offers free maths and science lessons on YouTube (Bill Gates, the world’s richest man, encourages his children to attend the academy). Airbnb lets people supplement their incomes by renting out spare rooms to cost-conscious travellers.

Three-dimensional printing is opening up all sorts of possibilities for frugal, small-scale manufacturing. New Matter and M3D, two startups, are developing 3D printers that will sell for a few hundred dollars. Shapeways, a global network of 3D-printing factories, delivers cheap, high-quality copies of products its customers have designed at home. Entrepreneurs are creating apps and attachments that turn smartphones into measuring devices, replacing all sorts of expensive industrial and medical instruments with something far cheaper. Crowdfunding outfits such as Kickstarter, KissKissBankBank and MedStartr provide a frugal source of financing for frugal innovators.

The reason that the launch of the Nano was such a disaster was that its early mishaps played into people’s suspicion that cheap products are bound to be shoddy. But that prejudice looks increasingly outdated as the discounting revolution gathers pace. Middle-class Britons are flocking to Aldi and Lidl, having discovered that a lot of their products are as good as those at Tesco and Sainsbury’s supermarkets, and a lot cheaper. As frugal innovation continues to spread, such retailers will have an ever greater variety of bargains to put on their shelves. ■





## Development

## The economics of optimism

NEW YORK

The debate heats up about what goals the world should set itself for 2030

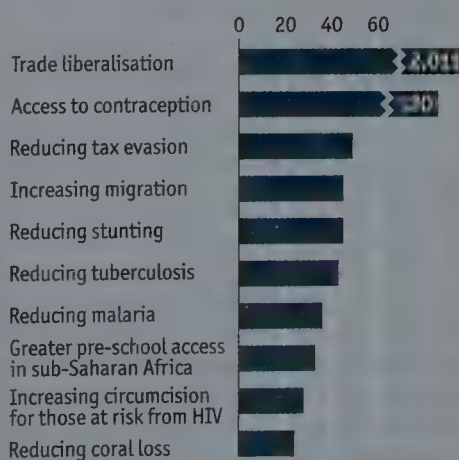
“THE lives of people in poor countries will improve faster in the next 15 years than at any other time in history. And their lives will improve more than anyone else’s.” So predict Bill and Melinda Gates in their annual letter, published on January 22nd. The wealthy philanthropists expect the rate of infant mortality to halve by 2030, from one child in 20 dying before turning five to one in 40. They also forecast the eradication of polio and perhaps three other deadly diseases. Improvements in agriculture will mean that Africa will be able to feed itself. Financial security will improve as the 2 billion people who do not have a bank account start storing money and making payments using mobile phones. And affordable online courses will open up huge educational opportunities for poor people, especially girls.

Yet the letter has surprisingly little to say about the United Nations initiative that is intended to bring such predictions to fruition: the “Sustainable Development Goals” to be agreed by world leaders at the UN General Assembly in September. The Gateses are huge fans of the Millennium Development Goals, which the SDGs will replace, describing them in their letter as “one of the best ideas for development either of us has ever seen”. Several of the eight MDGs have been achieved by this year’s deadline, including halving the proportion of people living in extreme poverty.

Huge strides have been made towards most of the others, such as halving the proportion of people who are hungry. One of the strengths of the MDGs was that there were only a few of them (the eight goals subsumed just 18 targets) and they were sufficiently clear to be a basis for action. That is in contrast to the SDGs, of which 17 have been proposed, with 169 associated targets. They cover everything from the quality of drinking water to inequality. Perhaps that is why the Gateses say limply in their letter that they hope the SDGs will

## No-brainers

Benefit per dollar spent for various development targets, \$



Source: Copenhagen Consensus Centre

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continue the good work of the MDGs.

On January 17th action/2015, a coalition of over 1,000 NGOs and celebrities, began a campaign for SDGs that are inspiring, properly financed and monitored with good data—sound principles, but ones that will not help much in winnowing down the number of goals and targets. Idealists, including Ban Ki-Moon, the UN secretary-general, want to stick with all the current proposals. Others want to focus on what is most practical, an approach that may win support in July, when finance ministers meet in Addis Ababa to discuss how to finance the SDGs. David Cameron, Britain's prime minister, has said there are too many proposed SDGs “to communicate effectively”; he thinks there should be 10-12.

One of the loudest voices calling for greater focus is Bjorn Lomborg, a Danish economist, who has launched the Post-2015 Consensus, an effort to draw up a shortish list of goals and targets the benefits of which, if achieved, would far outweigh the costs. This is a souped-up version of the Copenhagen Consensus he has run for the past decade, bringing together leading economists to calculate the cheapest ways to improve the state of the world.

Mr Lomborg has commissioned some 60 teams of economists, plus representatives from the UN, NGOs and business, to review the proposed targets to work out which would generate the most bang for the buck (he rates less than a tenth of them “phenomenal” value for money). The final assessments are due in February. A panel of three Nobel Prize-winning economists will then write an overview of the work and make recommendations for how best to spend the \$2.5 trillion in international development assistance Mr Lomborg expects over the years to 2030.

Some of the results are surprising. For ►►



instance, a recent paper by Bjorn Larsen looked at ways to reduce deaths from air pollution, which currently kills around 7m people a year. It found that shifting 1.4 billion people from traditional cooking methods to stoves with outdoor vents could save half a million lives a year and generate an economic benefit to the world of \$10 for every \$1 spent. Using higher-tech smoke-free stoves would bring an even bigger reduction in deaths. Yet the cost would be much higher, so the benefit would be only \$2 per dollar spent.

Perhaps more surprising, the most beneficial measure Mr Lomborg's teams evalu-

ated was lowering barriers to trade, which achieves far more per dollar spent than any other option (see chart on previous page). Completing the treaty currently under negotiation at the World Trade Organisation, for example, would bring developing countries \$3,426 for every dollar spent. A free-trade deal encompassing China, Japan, South Korea and the ASEAN countries would be worth \$3,438 per dollar spent.

Most poverty-reduction measures are more expensive than cutting tariffs, but many are still well worth it. Providing contraception and other reproductive-health services to all who want them would cost

\$3.6 billion a year, according to Mr Lomborg's researchers, yet generate annual benefits of \$432 billion, \$120 per dollar spent. Increasing the nursery school enrolment rate in sub-Saharan Africa to 59% from its current 18% would generate benefits of \$33 per dollar spent. Reducing by 40% the number of children whose growth is stunted by malnutrition would be worth \$45 per dollar spent; reducing deaths from tuberculosis \$43. Increasing mobile broadband penetration from 32% of the world's population to 90% by 2030 would deliver benefits of \$17 per dollar spent. Stopping tax evasion in sub-Saharan Africa (where it

## Buttonwood | Accentuate the negative

### Why investors would opt to lose money

**A** GUARANTEED loss. That is what investing in bonds at negative yields implies: those who buy the bonds will get back less than they paid even after interest is taken into account (and some will have to pay tax on the income as well). Yet government bonds of various maturities in as many as ten countries are selling at negative yields. Why on earth would bond investors, the "masters of the universe" once famed for intimidating governments, be willing to accept such a lousy deal?

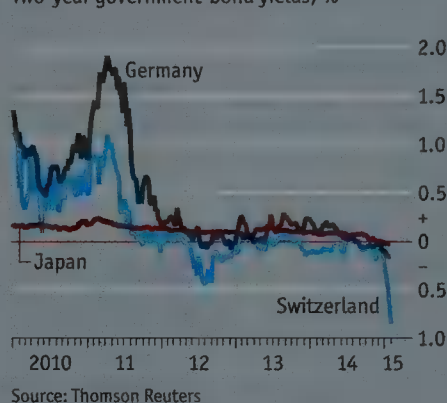
One obvious reason is fear, or at least caution. In the depths of the financial crisis in 2008, when the safety of the banks seemed in doubt, short-term Treasury bills offered negative yields and investors were happy to take them. (Holding physical cash is impractical, given the sums involved.) Now, with some uncertainty about what might happen to banks were Greece to leave the euro, investors may decide it is worth accepting a negative yield of 0.16% on two-year German bonds. "In effect you're paying a 16-basis-point custody fee for keeping your money safe," says David Lloyd of M&G, a fund-management group.

In other words, investors are willing to lose a little to make sure they don't lose a lot. But it is harder to see this as an explanation for negative yields on longer-term debt, such as Switzerland's ten-year bonds. You would have to be quite depressed to conclude that no asset on the planet would make any money at all over the next decade.

Why might investors be so gloomy? The euro zone is struggling to generate growth and faces a poor demographic outlook, with the workforce in many countries either stagnant or set to fall. Even so, accepting a negative yield over ten years is quite a bet. Long-term bond

### Money-shredders

Two-year government-bond yields, %



Source: Thomson Reuters

yields are, in effect, a forecast of the future direction of short-term rates. The European Central Bank has imposed negative rates at the moment, but will rates still be below zero in a few years' time?

Another reason investors might accept a negative nominal yield is if they expect steadily falling prices, ie deflation. In such circumstances, a negative nominal yield could still deliver a positive return in real (inflation-adjusted) terms. In the latest report, the euro zone had experienced falling prices over the previous year.

Deflation does not automatically lead to negative yields, however. Japan has had periods of deflation for more than a decade. While its bond yields were for a long time the lowest in the world, they only went negative recently (see chart). And most forecasts still predict a modestly positive rate of inflation in the euro zone this year.

Another possibility is that foreign investors may expect currency gains to outweigh any losses on the bond itself. International investors who bought Swiss bonds before the Swiss franc's recent jump (it rose 30% against the euro in minutes

after the central bank abandoned its exchange-rate cap and ended the day 12% higher) will have made a killing.

Believers in the theory of purchasing-power parity think that, over the long run, exchange rates adjust to account for price differentials. A country with a relatively high inflation rate will tend to see its currency depreciate; a country with a low inflation rate will see its currency rise. So international investors who expected to see the Swiss economy suffering a long period of deflation might accordingly expect the Swiss franc to rise steadily, and thus be willing to hold its government bonds.

Some banks and institutions are also forced to hold government bonds, regardless of their yield, because of regulations and liquidity requirements.

The final possibility, and the most obvious explanation in the short term, is that investors have been anticipating the introduction of quantitative easing by the European Central Bank. If experience in America and Britain is any guide, purchases by the ECB will eventually drive prices up and yields down. Why worry about the theoretical loss involved in holding a bond till maturity if the investor knows he can offload the bond to his friendly neighbourhood central bank?

There are risks involved, of course. If the global economy returns to normal, then losses on government bonds will be substantial. The same would be true if inflation ever reappears. M&G says that if German bond yields merely rose back to the levels that prevailed at their previous trough, in 2012, when it was feared the euro might break up, investors would suffer a capital loss of 7%. Whatever else European government bonds may be, they are not risk-free.



currently costs 20 governments around 10% of GDP a year) would also pay off handsomely, at \$49 per dollar spent. Increasing by 20% the worldwide availability of work visas would generate benefits of \$15 per dollar.

In contrast, the researchers question whether the benefits of efforts to curb climate change justify the costs. They are also sceptical about the UN's push for "data for development" as part of the SDG process. According to Mr Lomborg, gathering data is hugely expensive, at around \$1.5 billion per SDG target; measuring all 169 proposed targets would eat up 12.5% of total international development aid.

Defenders of the SDGs argue that their greatest virtue lies in getting countries involved in any development scheme underpinned by proper reporting and peer review. Economic purity must sometimes be sacrificed to secure broad agreement on a set of global goals. Mr Lomborg's work is "very naive", says Jeffrey Sachs, another economist with strong views about what works in international development.

Yet Mr Sachs, who has presided over a broad research effort of his own into which goals and targets should be adopted, the Sustainable Development Solutions Network, agrees that trimming is needed. He would like to see fewer SDGs, to make marketing them easier, and far fewer targets. As Mr Lomborg puts it: "Having 169 targets is like having no targets at all." ■

### Quantitative easing in the euro zone

## Better late than never

The policy will help, but less so than in other big economies

AFTER months of internal and external debate, having exhausted all the alternatives, the European Central Bank (ECB) was expected on January 22nd (after *The Economist* had gone to press) to introduce a big programme of quantitative easing. QE—creating money to buy financial assets including sovereign bonds—was first used by the Bank of Japan in the early part of the 2000s; the Federal Reserve and the Bank of England introduced it in the wake of the financial crisis of 2008. Long-standing German antipathy to the policy, however, has made the ECB a late adopter.

The central bank is turning to QE because of the enfeebled state of the European economy. The recovery since the double-dip recession in the acute phase of the euro crisis has been weak and faltering. Slack demand has caused "lowflation": headline prices fell in the year to December by 0.2% while core inflation (excluding

volatile components like food and energy) was 0.7%. Financial markets no longer believe that the ECB will be able to get inflation back to its goal of nearly 2% over the medium term. Its previous efforts to stimulate the economy, which include becoming the first big central bank to impose negative interest rates, have been inadequate. So purchases of sovereign bonds, the only asset class big enough to allow bulk-buying, now seem essential.

The initial deployment of QE in America and Britain involved an element of "shock and awe", since financial markets were unfamiliar with the new monetary-policy measure when it was introduced in both countries. As a result it brought down yields sharply. By contrast, the markets have long been expecting the ECB to introduce QE. That has already led to a remarkable rally in sovereign-bond markets, especially in the troubled countries of southern Europe. In Portugal, for example, ten-year bond yields fell by 3.5 percentage points in the course of 2014, from 6.2% to 2.7%. (The exception is Greece, where fears of a political crisis, and even of a possible exit from the euro zone after the election on January 25th, have recently driven yields up again.) As a result the effect of actually implementing QE will be limited. Indeed, its main impact may be to validate the expectations that have already driven bond yields down so far.

Another difference between QE in the euro zone and in America in particular arises from the nature of their financial systems. Because companies rely much more heavily on capital markets in America, they benefited a lot as falling yields on safe government debt pushed investors into riskier assets such as corporate bonds and equity. By contrast, banks are more dominant in the euro zone, so its companies will benefit less from the boost to European capital markets.

There are two main channels through which QE is likely to work in the euro zone. One is the "signalling" effect. By adopting the policy, the ECB is sending a clear message to markets and to firms that it is determined to bring inflation closer to 2%. The other is through the exchange rate. The euro has already been weakening since last spring. Further weakening of the single currency seems likely, especially against the dollar, which is being sustained by America's sturdy recovery.

All this makes the ECB's likely foray into QE less like the programmes launched by the Fed and the Bank of England at the height of the crisis and more like those of the Bank of Japan, which has been combating the more insidious threat of deflation. As with Japan's recent bond-buying, the main effect seems likely to come via the exchange rate. The worry is that like Japan in the early 2000s, the ECB may be introducing the policy too late. ■



### Financial technology

## Connect 450

NEW YORK

A tech startup helps rejig America's capital markets

ORCHARD PLATFORM, a financial technology company founded in 2013, occupies a small office in Manhattan between two art studios. It is Orchard's third home and soon its 25 employees will relocate a few blocks away to a space that can hold 78 people. It thinks it will have to move again within a year.

Orchard is just one of many "fintech" firms sprouting in Wall Street's shadow. But it stands out due to the prominence of its seed investors, including former chief executives of Citigroup (Vikram Pandit) and Morgan Stanley (John Mack). In their former jobs, they struggled to adapt vast, complex institutions to new regulations and fast-changing markets. Orchard, in contrast, is one of the agents of change. It serves as a conduit between large entities that have money to invest and an emerging world of firms that originate loans.

In 2011 Matt Burton, Orchard's boss, lent \$700 via Lending Club, an online platform which links borrowers and creditors. He was pleased with his return of 8% until he discovered it was half that of Angela Ceresnie, now Orchard's chief financial officer, who was working at the time in small-business lending at Citigroup. That prompted two insights: first, that there was money to be made by working with "originators", meaning startups providing credit in novel ways; and second, that institutional investors would struggle to seize on ►



► this opportunity without an intermediary.

There are now at least 450 originators, Mr Burton estimates, focusing on half a dozen niches including loans to consumers, small businesses, students and property investors. To the extent the originators resemble one another, it is that they tend to make relatively small loans and use innovative methods to evaluate risk. For example, SoFi, based in San Francisco, refinances law-school debt for graduates who have passed the bar and are thus particularly likely to repay. OnDeck Financial provides advances to merchants and collects (in tiny increments) each time their customers pay with a credit card. Kabbage also provides credit to merchants, monitoring borrowers' solvency by tracking PayPal receipts and UPS shipment records.

So far Orchard's platform is connected to seven of these originators and 36 institutional investors. It expects both numbers to multiply rapidly. It collates information on the loans being offered in forms that big institutions can use to invest on a suitable scale. In the brief period it has operated, it has channelled several hundred million dollars of investment into loans of as little as \$2,000. Its profits come from collecting a fee of a few hundredths of a percentage point on the sums lent with its help.

Conventional banks will remain a force in all of the niches that are being targeted. They retain a huge marketing advantage in the form of their branches, and can raise money cheaply thanks to government backing for deposits and implicit government guarantees on their own debt. Still, neither of these advantages is without cost, and the price of government engagement is becoming particularly stiff. The level of capital banks must hold is rising and the overall process of extending credit is becoming an increasingly politicised, bureaucratic quagmire.

Most originators, in contrast, are not regulated as banks, and are not subject to the same expensive capital requirements or suffocating red tape. Indeed, regulators like them, since they are unlikely to need bail-outs. They do not take in deposits backed by a government guarantee and cannot make big losses on loans, since those are passed directly to other investors.

Banks retain an advantage in the case of large, complex loans that must be individually structured, but room for incursion exists even here. Within a year, Mr Burton predicts, originators will enter the mortgage market, which will not prevent defaults but might add a level of transparency lacking in the once vast market for mortgage-backed bonds. The scope for banks to be "disintermediated" is enormous. In time, of course, intermediaries like Orchard could be cut out of transactions too. Some of the biggest originators, including Lending Club, already do business directly with institutional investors. ■

## Ukraine and the IMF

# Bigger and better

DONETSK

**But ■ new bail-out will be no panacea**

**P**OLITICIANS do not usually brandish big chunks of metal when giving speeches. Petro Poroshenko, Ukraine's president, did just that at this year's World Economic Forum in Davos. He had brought with him a bit of a bus destroyed in shelling that killed 13 civilians last week in the east of the country. Mr Poroshenko's emotional plea for more Western aid paid off. On January 21st the IMF indicated that there would be a new bail-out package for Ukraine. What many had predicted has finally come to pass: creditors will now have to shoulder some of the load.

2014 was a terrible year for Ukraine's economy. GDP shrank by nearly a tenth. The currency, the hryvnia, fell by more than 50%. As the cost of imports rose, inflation jumped, from 1% a year ago to 25%. In a desperate attempt to prop up the currency, the central bank has been throwing cash at the markets: Ukraine's foreign-exchange reserves have fallen from more than \$16 billion in the middle of 2014 to less than \$7 billion. Debt repayments of at least \$10 billion, gas-import bills and a lifeless banking sector mean that Ukraine will probably need \$20 billion in external support to survive 2015.

Western help thus far has been inadequate. In 2014 the IMF pledged to contribute \$17 billion over two years. It has disbursed about \$5 billion of this. After Ukraine passed its budget on December 29th there were hopes that more money might soon be forthcoming. The European Union offered €1.8 billion (\$2.1 billion);

America pledged \$2 billion-worth of loan guarantees. Angela Merkel, the German chancellor, offered €500m (in response, her website was downed by pro-Russian hackers). These dribs and drabs were nowhere near enough.

The proposed new bail-out looks like a step forward. It is an "extended-fund facility", which means that the IMF will be able to lend more money to Ukraine for a longer period. That may help the country to implement reforms and slowly become more competitive. But while the new bail-out may end up bigger than the old, it will not necessarily lead to the quick disbursements that Ukraine desperately needs.

For that reason Ukrainian officials were forced into a volte-face on the question of debt restructuring. For months they have insisted that the country would repay its foreign creditors in full. The day before the new bail-out Vladyslav Rashkovan, the acting deputy governor of the central bank, said that restructuring was "not on the table". The plan has now changed. The prospect of drawn-out negotiations spooked some investors, who sold their bonds. The hope is that the new owners will come round to Ukraine's point of view. Accepting some losses on loans may now be the only way they will get anything back.

The new bail-out can do nothing at all to solve Ukraine's other big debt problem: a \$3 billion bond, owed to Russia, that matures in December. A bizarre clause in the bond specifies that if Ukraine's debt-to-GDP ratio exceeds 60%, Russia can demand early repayment. That, in turn, would trigger a cross-default on a big chunk of the government's other debts. Everyone knows that Ukraine has already passed the 60% threshold, though this will not be announced officially for a few months. It may soon become clear that it is Russia, not the West, that holds the most sway over Ukraine's economy. ■



Poroshenko with evidence of need



## Foreign exchange

## Swiss miss

## The fallout from the Swiss franc's gyrations is only just beginning

WHEN the Swiss National Bank (SNB) intervened to weaken its currency in 2011, analysts called the subsequent abrupt drop in the franc's value a "20-standard-deviation move". Assuming the franc's ups and downs follow a normal distribution, such a big shift should not have occurred again for many squillions of years. Yet when the SNB reversed itself and lifted its cap on the franc's value on January 15th, sending it soaring, the market was wrong-footed once again. "I think it was something like a 20-plus-standard-deviation move," said Harvey Schwartz, the chief financial officer of Goldman Sachs, a bank.

Exceedingly unlikely events occur with distressing regularity in financial markets, often leading to large losses. In this instance, investors behaved as if an informal currency peg in place for three years was an immutable law of economics. The spike in the Swissie, as it is known in foreign-exchange (FX) circles, dented banks, hedge funds and the pride of a few "strategists" who had advised clients to bet on a slump.

The most gravely harmed, however, were retail brokerages, websites that allow individuals to speculate on FX. Because currencies seldom move by more than a fraction of a percent on any given day, brokers only require punters to post tiny amounts of collateral: in America, a mere \$20 deposit is typically enough to "buy" \$1,000-worth of Swiss francs, a 50-to-1 ratio. Some brokers in Britain were happy with leverage of up to 400-to-1.

Such meagre security is fine in normal times, when shifts of 0.1% a day are the norm. But a movement of 1-2%—a magnitude that seemed absurd until the franc soared by 30% in a few minutes—is enough to wipe out the collateral and more. In theory, albeit not in practice, the broker can recoup any remaining losses from customers. Such bad debts amounted to \$225m at FXCM, an American outfit that has since received an emergency funding package.

Wall Street and the City have been hit, too. In what is effectively a pyramid of debt, investment banks extended credit to brokerage websites in the same way the websites extended credit to their customers. There are "difficult conversations" going on at the moment as to who owes money to whom, says one banker. That is on top of losses the bankers made at their own FX trading desks in the immediate aftermath of the SNB's move, reportedly \$400m for Deutsche Bank, Citigroup and

## Global inequality

## The wrong yardstick

## Oxfam causes a stir with a stat

THE theme of inequality has loomed large in recent years for delegates of the World Economic Forum's annual meeting in Davos. This year's gathering of plutocrats is no different, thanks in part to a much-publicised forecast from Oxfam, a charity, that the world's wealthiest 1% will soon hold more net wealth than the other 99% put together.

Oxfam's projection (see left-hand chart) should be treated with caution. The charity uses a straight-line projection of the trend in wealth shares in 2010-14 to forecast that just 50m adults will hold the majority of the world's household wealth by next year. That is both too simplistic and arbitrary. If Oxfam had based its forecast on the trend in 2000-14, then the crossover point would have been 2035.

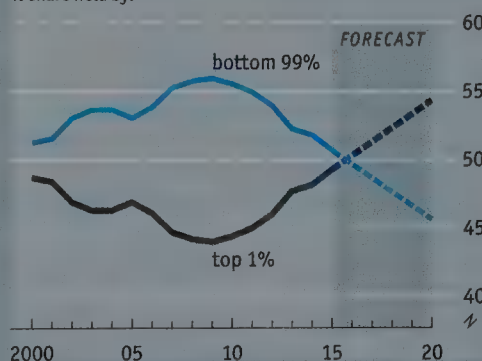
Measuring wealth is in any case problematic. Oxfam's numbers piggyback on Credit Suisse's "Global Wealth Report", published in October, which found that 48% of the world's \$263 trillion in net

household wealth (ie, after subtracting debts) is in the hands of the richest 1% of its citizens. The Swiss bank's report is fairly well-regarded but data on household wealth across the globe are sketchy. And measuring net wealth leads to some very odd outcomes: the owners of the 5.1m underwater homes in America will count among the world's poorest.

Income is a cleaner measure than wealth. In a 2013 paper Branko Milanovic, a scholar on inequality, calculated the change in real income per person between 1988 and 2008 (see right-hand chart). During that period, the incomes of the gilded 1% rose by more than 60%. But the greatest beneficiaries were people in the middle of the income ladder: the emerging middle classes in places like China, Indonesia and India. The big losers included the middle classes of the rich world, whose real incomes barely budged. Inequality is on the rise within countries. Globally, *pace* Oxfam, the picture is much more encouraging.

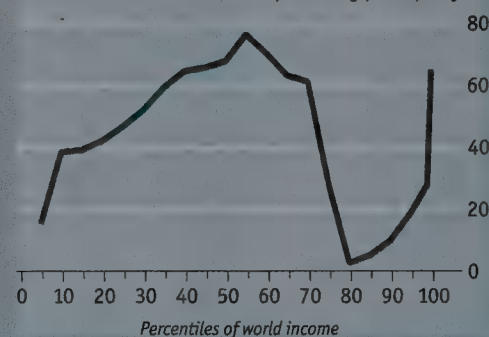
## Worth a second glance

Global net household wealth  
% share held by:



Sources: Credit Suisse; Oxfam; "Global Income Inequality in Numbers", by Branko Milanovic, *Global Policy*, May 2013

Real income per person  
% change between 1988-2008 for people at different levels of world income distribution at 2005 purchasing-power parity



Barclays combined. (Swiss banks have their own headaches as a result of the impact of the move on their home economy.)

Another likely casualty is the "value-at-risk" models banks use to calculate the maximum they might lose on any given investment or transaction. These are based on past volatility. Since the Swiss franc's daily movements since 2011 had been artificially low, the maximum predicted losses would have been negligible—or so banks would have assured regulators and shareholders. In its last quarterly disclosure, Deutsche said it faced a maximum daily loss from FX trading of €21m (\$24m)—less than its reported loss on the Swissie alone.

The big movements of 2011 should have

raised the bar to trading francs using value-at-risk models. The latest spike should in theory make it difficult for banks to deal in Swissies at all. It probably won't: models can be tweaked with "overlays", risk-manager talk for "ignoring data points you don't like". With luck, regulators will now give such methods greater scrutiny.

If the Swissie debacle also helps to stem day-trading in currencies, it will have done those who retreat a favour. Few moms and pops make a profit: a study by the French financial regulator found 85% of them lost money. That is not surprising, given how efficient FX markets are. Not that the professionals have proven themselves much savvier when markets suddenly turn. ■



## The Big Mac index

## Oily and easy

Some currencies lose weight on a diet of QE and cheap oil; others bulk up

TWO trends have dominated the world of burgeronomics over the past six months: currency markets have bubbled like potatoes in a fryer as the oil price has fallen to finger-licking lows and central banks have cooked up new monetary stances. The currencies of commodity exporters have been burnt, while those of big importers have sizzled. Meanwhile, the end of quantitative easing in America has supersized the dollar, whereas the mere prospect of it in Europe has made a happy meal of the euro.

The Economist whipped up the Big Mac index in 1986 as a bun-loving way of explaining currencies' relative values. It is based on the theory of purchasing-power parity, which posits that over the long run, currencies should adjust so that a basket of identical goods costs the same everywhere. We fill our basket with just one item: the Big Mac, which is made to the same recipe in almost all countries (India's Maharaja Mac, a chicken sandwich, is an exception). Buying a Big Mac in Denmark,

for example, costs \$5.38 at market exchange rates compared with \$4.79 in America, so our index suggests the Danish krone is 12% overvalued (see chart). No wonder Denmark's central bank cut rates this week.

On average, Americans abroad get more burger for their buck than they did last summer. Relatively beefy growth in America has helped to fatten the greenback. Elsewhere, however, central bankers are still trying to add sauce to their economies, in part by encouraging their currencies to fall. In Japan, for instance, a belt-busting bond-buying scheme has caused the yen to waste away. The expectation that the European Central Bank would serve up a hearty dose of QE seems to have prompted Switzerland's stomach-turning scrapping of the franc's peg to the euro. Last week a Swiss Big Mac cost \$6.38, but now it gobbles up \$7.54.

The few other currencies to have increased in value against the dollar since last summer are those of big energy importers, such as China and India. The cur-

rencies of several other import-guzzlers, including the Thai baht and the Philippine peso, have lost relatively little ground. By contrast, the currencies that have lost the most are those of big commodity exporters. The Brazilian real was 22% overvalued six months ago but is now only 9%. The Canadian dollar, the Norwegian kroner and the Russian rouble have also been quarter-pounded. In a bid to fire up the Canadian economy, the Bank of Canada also cut interest rates this week.

But a weaker currency is not necessarily hard to swallow: it can help beef up exports and quench deflationary pressures. For years central bankers in Australia and New Zealand have found themselves in a pickle: high prices for the raw materials they sell have buoyed their currencies, to the detriment of other parts of the economy. The recent decline of both the Aussie and kiwi dollars is therefore something that policymakers from both countries have probably been looking forward to—with relish. ■

## Standard &amp; Poor's

## Berated

NEW YORK

## A rating agency makes a grudging concession

RATING agencies have long argued that their opinions, like any expressed by the press in America, are commentary and thus free from any regulation or censure. That argument has been weakened, if only a bit, by a settlement announced on January 21st between one of the biggest, Standard & Poor's (S&P) and the Securities and Exchange Commission (SEC), America's grandest financial regulator, along with the attorneys-general of New York and Massachusetts.

S&P agreed to pay \$58m to the SEC and \$19m to the two states. It also said it would stop providing ratings for a year on a certain type of bond backed by commercial property. The regulators had complained that it had provided misleading information about the methodology behind its ratings to the investors who use them and had softened standards to attract more business. (The firms issuing the securities being rated, which pay for the rating agencies to assess them, naturally prefer them to be declared creditworthy.) In addition to its action against the company, the SEC has also begun proceedings against a former managing director at S&P, Barbara Duka, possibly in response to pervasive complaints that financial firms are often accused by regulators of behaving badly, but their employees seldom are.

The publicity surrounding the complaint will not do S&P any good. More-

over, its willingness to settle undermines the rating agencies' typical response to questions about the quality of their work: that they have a right to opine, and that the market—not the law—should judge the merit of those opinions. That contention was already in doubt, given that Congress gave the SEC the power to regulate certain aspects of rating agencies' work in 2006 and then expanded it in the Dodd-Frank reforms of 2010.

Yet the precedent may not be a strong one. Ms Duka is contesting the SEC's authority, demanding to defend herself in a federal court instead. And although S&P has not disputed the SEC's account of the facts of the case, it has not admitted any wrongdoing. That leaves room for it to argue the settlement was a business decision, not a confession.

Meanwhile, a far more significant battle continues with the Justice Department over the high ratings S&P and others accorded the bonds backed by residential mortgages that blew up during the financial crisis. In theory, that case could establish whether the work of rating agencies is indeed a form of commentary or more of a public service akin to power generation. That, in turn, would determine how heavily they should be regulated. But if this week's settlement is any guide, those proceedings may provide no more definitive a view than the rating agencies themselves typically do.

## The Big Mac index

Local currency under(-)/over(+) valuation against the dollar, %



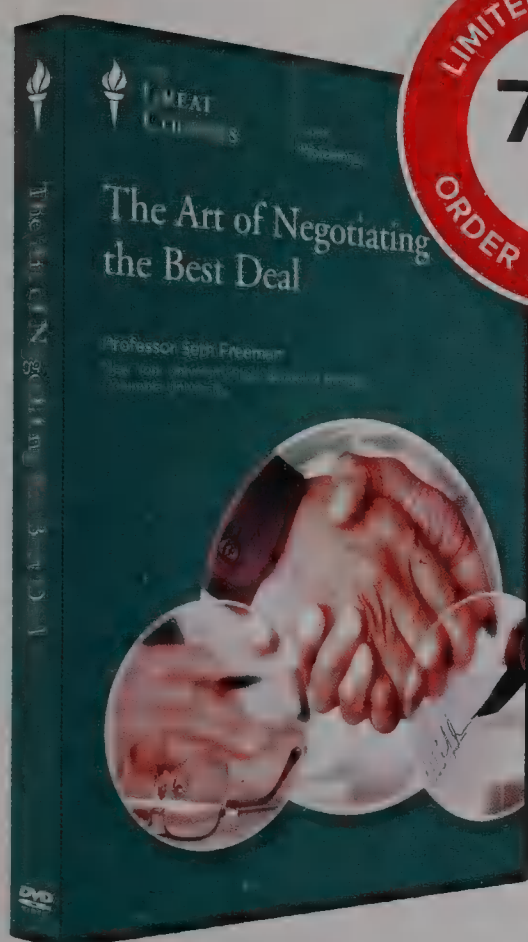
\*At market exchange rates (Jan 21st 2015) †Average of four cities ‡Weighted average of member countries

§Average of five cities \*\*Maharaja Mac

Sources: McDonald's; The Economist

Interactive: Compare global currencies over time with our Big Mac index at [Economist.com/bigmac](http://Economist.com/bigmac)





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# Free exchange | Broke but never bust

The ECB and Swiss National Bank should be much more relaxed about losing money

CONTEMPORARY central banking is a strongbox of oddities. Deposits, which normally pay interest, can now incur a charge. Investments in government debt, which normally offer a return, give a negative yield. Faced with this weirdness central banks are trying to respect some cardinal rules of finance, with the Swiss National Bank (SNB) and the European Central Bank (ECB) taking steps to protect themselves from losses and ensure that their balance-sheets add up. The experience of several poorer places suggests they are wrong to do so.

In calm times central banking is simple and profitable. Central banks' assets—mainly bonds issued by rich countries and blue-chip firms—pay a decent return. Their liabilities—deposits made by high-street banks and banknotes—cost them little or nothing. With this wedge between income and outgoings shareholders receive a dividend. The SNB paid dividends of SF1 billion (\$1.15 billion) to Switzerland's federal and regional governments in 2012. The ECB's 2013 payout—divvied up across the euro-area national central banks—was €1.4 billion (\$1.9 billion).

The financial crisis changed the business. For one thing central banks are far bigger (see left-hand chart). Between 2006 and 2014 central-bank balance-sheets in the G7 jumped from \$3.4 trillion to \$10.5 trillion, or from 10% to 25% of GDP. And the assets they hold have changed. The SNB, aiming to protect Swiss exporters from an appreciating currency, has built up a huge stock of euros, bought with newly created francs. The ECB, mindful of tight credit, has lent money to banks and bought corporate bonds. And on January 22nd, as *The Economist* went to press, it was expected to announce that it would start buying government debt.

The expansion would be greater but for worries about cash-flow and capital. Bonds that paid 5% or more ten years ago now yield nothing, and other investments have performed badly (the SNB was stung by a drop in the value of gold in 2013 and cut its dividend to zero). Concerned that its euro holdings might lose value the SNB shocked markets on January 15th by abruptly ending its euro-buying spree. Worries that QE will lead to losses if struggling governments default on their debt have caused weeks of wrangling at the ECB, and may prevent it from buying Greek bonds.

From a narrow accounting perspective this caution seems prudent. With capital of €95 billion supporting a €2.2 trillion balance-sheet, the Eurosystem (the ECB and the national banks that stand behind it) is 23 times levered; a loss of 4% would wipe out its equity. Since two central banks have suffered devastating crunch-

es recently (Tajikistan in 2007, Zimbabwe in 2009) the standard logic seems to apply: capital-eroding losses must be avoided.

But the worries are overdone. For one thing central banks are healthier than they appear. On top of its equity, the Eurosystem holds €330 billion in additional reserves. These funds are designed to absorb losses as assets change in value. Even if the ECB were to buy all available Greek debt—around €50 billion—and Greece were to default, the system would lose just 15% of these reserves; its capital would not be touched.

And even if a central bank's equity were wiped out it would not go bust in the way high-street lenders do. With liabilities outweighing its assets it might seem unable to pay all its creditors. But even bust central banks retain a priceless asset: the power to print money. Customers' deposits are a claim on domestic currency, something the bank can create at will. Only central banks that borrow heavily in foreign currencies they cannot mint (as in Tajikistan) or in failing states (Zimbabwe) get into deep trouble.

## A helpful bias

The survival of threadbare central banks proves the theory. In the 1980s many emerging-market central banks faced sharply appreciating exchange rates and bought up dollars with newly created cash to cheapen their currencies. Since inflation was a worry they "sterilised" the purchases, mopping up the money by selling bonds to investors. With low-yielding assets (dollars) and high-cost liabilities (domestic-currency bonds) they locked in losses, as a 2008 paper\* by Peter Stella and Ake Lonnberg of the IMF shows. By the late 1980s the central banks of Jamaica and Nicaragua were regularly losing 5% of GDP or more per year. After 20 years of losses Chile's is in negative equity (see right-hand chart).

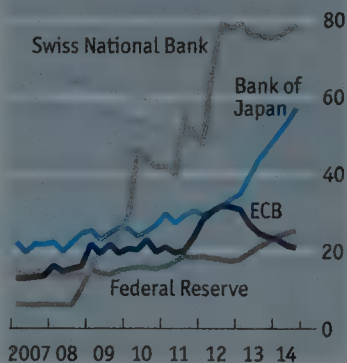
While none of these banks toppled, hawks have other fears. Like any firm, central banks face running costs. The urge to pay the bills could tempt them to print money rather than focus on inflation. Another worry, set out in a 2005 paper by John Dalton and Claudia Dziobek of the IMF, is that low capital could lead to a loss of independence. While negative capital doesn't matter much it doesn't look great; a central bank embarrassed by its capital deficiency might seek a capital injection from its finance ministry and be captured by boom-hungry politicians. In either case, capital erosion might mean a bias towards higher inflation.

There is some evidence for this. In a 2012 paper Gustavo Adler and Camilo Tovar of the IMF and Pedro Castro of the University of California, Berkeley, test the relationship between bank capital and interest-rate policy. Collecting data for 41 advanced and emerging economies between 2002 and 2011, they work out what a hypothetical central bank, behaving optimally, would do. They contrast this with the central bank's choices and seek to explain why the two might diverge. They find that large deviations can be explained by a weak capital position. Flaky-looking central banks might lower interest rates by up to 72 basis points.

Doves should cheer this. Falling returns on government bonds mean central banks' income will dwindle. Given their pumped-up balance-sheets, some losses are likely. None will fail, but a few might chase their losses by printing money and pushing rates down. In a world on the brink of deflation, bias towards a little more inflation would be no bad thing. ■

## Throwing caution to the wind

Central-bank assets  
As % of GDP



Sources: National sources; Thomson Reuters; IMF; Haver Analytics

Central banks' capital  
As % of assets, 2013



\*February 2014 †Latest

\*Studies cited in this article can be found at [www.economist.com/centralbanks15](http://www.economist.com/centralbanks15)



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### Combating illegal fishing

## Dragnet

**A new satellite-based surveillance system will keep a sharp eye on those plundering the oceans**

THE *Yongding* is something of a ghost ship, disappearing and changing her name many times, along with her flag of registration. The 62-metre vessel was last spotted on January 13th in a marine conservation area in the Southern Ocean, blatantly hauling up outlawed gill nets laden with toothfish, a catch so prized that it is known as “white gold”. Interpol is seeking information about who operates the ship and profits from its activities, as well as those of two accompanying vessels, *Kunlun* (pictured above, landing a toothfish) and *Songhua*. In the vastness of the open ocean, policing vessels like *Yongding*, *Kunlun* and *Songhua* is hard. But it is about to get easier—for with just a few mouse clicks a satellite-based monitoring system, unveiled this week, will be able to compile a dossier of evidence about even the most clandestine fishing operations.

The scale of illegal and unreported fishing is, for obvious reasons, difficult to estimate. The Pew Charitable Trusts, an American research group, has nevertheless had a stab at it. It reckons that around one fish in five sold in restaurants or shops has been caught outside the law. That may amount to 26m tonnes of them every year, worth more than \$23 billion. This illegal trade, though not the only cause of overfishing, is an important one. Stamping it out would help those countries whose re-

sources are being stolen. It would also help to conserve fish stocks, some of which are threatened with extinction. It might even (if the more apocalyptic claims of some ecologists are well founded) slow down the journey towards a wider extinction crisis in the oceans.

### A global game of hide and seek

The new monitoring system has been developed by the Satellite Applications Catalyst, a British government-backed innovation centre based at Harwell, near Oxford, in collaboration with Pew. In essence, it is a big-data project, pulling together and cross-checking information on tens of thousands of fishing boats operating around the world. At its heart is what its developers call a virtual watch room, which resembles the control centre for a space mission. A giant video wall displays a map of the world, showing clusters of lighted dots, each representing a fishing boat.

The data used to draw this map come from various sources, the most important of which are ships' automatic identification systems (AIS). These are like the transponders carried by aircraft. They broadcast a vessel's identity, position and other information to nearby ships and coastal stations, and also to satellites. An AIS is mandatory for all commercial vessels, fishing boats included, with a gross tonnage of

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more than 300. Such boats are also required, in many cases, to carry a second device, known as a VMS (vessel monitoring system). This transmits similar data directly to the authorities who control the waters in which the vessel is fishing, and carrying it is a condition of a boat's licence to fish there. Enforcement of the AIS regime is patchy, and captains do sometimes have what they feel is a legitimate reason for turning it off, in order not to alert other boats in the area to profitable shoals. But the VMS transmits only to officialdom, so there can be no excuse for disabling it. Switching off either system will alert the watch room to potential shenanigans.

The watch room first filters vessels it believes are fishing from others that are not. It does this by looking at, for example, which boats are in areas where fish congregate. It then tracks these boats using a series of algorithms that trigger an alert if, say, a vessel enters a marine conservation area and slows to fishing speed, or goes “dark” by turning off its identification systems. Operators can then zoom in on the vessel and request further information to find out what is going on. Satellites armed with synthetic-aperture radar can detect a vessel's position regardless of weather conditions. This means that even if a ship has gone dark, its fishing pattern can be logged. Zigzagging, for example, suggests it is long-lining for tuna. When the weather is set fair, this radar information can be supplemented by high-resolution satellite photographs. Such images mean, for instance, that what purports to be a merchant ship can be fingered as a transshipment vessel by watching fishing boats transfer their illicit catch to it.

As powerful as the watch room is, though, its success will depend on govern- ►►



ments, fishing authorities and industry adopting the technology and working together, says Commander Tony Long, a 27-year veteran of the Royal Navy who is the director of Pew's illegal-fishing project. Those authorities need to make sure AIS and VMS systems are not just fitted, but are used correctly and not tampered with. This should get easier as the cost of the technology falls.

Enforcing the use of an identification number that stays with a ship throughout its life, even if it changes hands or country of registration, is also necessary. An exemption for fishing boats ended in 2013, but the numbering is still not universally applied. Signatories to a treaty agreed in 2009, to make ports exert stricter controls on foreign-flagged fishing vessels, also need to act. Fishermen seek out ports with lax regulations to land illegal catches.

### Preserving Nature's bounty

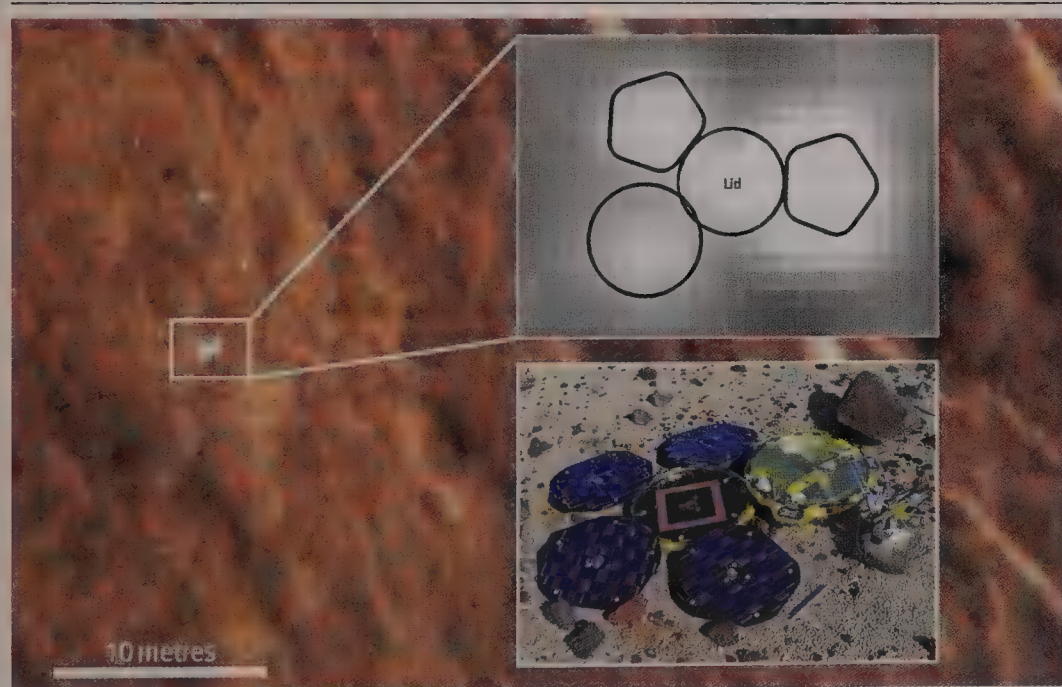
One of the most promising ideas for using the watch room is that shops could employ its findings to protect their supply chains, and thus their reputations for not handling what are, in effect, stolen goods. Governments sometimes have reason to drag their feet about enforcing fisheries rules. Supermarkets, though, will generally want to be seen as playing by them. The watch room's

developers say they are already in discussions with a large European supermarket group to do just this.

The watch room will also allow the effective monitoring of marine reserves around small island states that do not have the resources to do it for themselves. The first test of this approach could be to regulate a reserve of 836,000 square kilometres around the Pitcairn Islands group, a British territory in the middle of the South Pacific with only a few dozen inhabitants.

The Pitcairn reserve, which may be set up later this year, will be one of the world's largest marine sanctuaries. By proving that the watch room can keep an eye on such a remote site, its developers hope other places with similar requirements will be encouraged to get involved.

The watch-room system is, moreover, capable of enlargement as new information sources are developed. One such may be nanosats. These are satellites, a few centimetres across, that can be launched in swarms to increase the number of electronic eyes in the sky while simultaneously reducing costs. Closer to the surface, unmanned drones can do the same. The watch room, then, is a work in progress. But in the game of cat and mouse that enforcing fishing regulations has become, it will give the cat an important advantage. ■



### The Beagle had landed

The white blob on the left side of the photograph above is *Beagle 2*, Britain's first (and so far only) Mars probe, which vanished on Christmas Day in 2003. Ever since, those who launched it have pored over pictures taken from other orbiting probes, trying to find out what happened to their robot. On January 16th Britain's space agency announced that the craft's remains had been discovered in images from the High-resolution Imaging Science Experiment—a fancy camera aboard *Mars Reconnaissance Orbiter*, an American craft. Comparing a magnified image of the blob (top right) with a model of the craft as it was supposed to deploy (bottom right) suggests that two of its solar panels failed to open, covering the antenna in the central disc (the probe's opened lid) that was meant to keep it in contact with *Mars Express*, its European mother ship. Colin Pillinger, the magnificently sideburned astronomer who was the leader (and also the very public face) of the mission, did not survive to learn its fate. He died last May.



Comet 67P/Churyumov-Gerasimenko

## Rosetta's report

### The latest from Europe's comet-hunting mission

IN NOVEMBER the public's imagination was briefly caught by the adventures of a plucky little spacecraft called *Philae*. This craft, the pup of a mother ship known as *Rosetta*, made a bouncy landing onto the surface of comet 67P/Churyumov-Gerasimenko, which *Rosetta* was orbiting. *Philae* worked for but a couple of days, and after it died attention turned elsewhere. But *Rosetta* has continued to operate, and her reports have now been distilled into a series of papers, just published in *Science*, that give a preliminary assessment of what the two craft have found.

The comet's surface, as Nicolas Thomas of the University of Bern has discovered, is surprisingly complex. It has 19 distinct regions, characterised by features such as pits, wide depressions and smooth, dust-covered plains. It even sports things that look like sand dunes.

The surface is also, according to Fabrizio Capaccioni of the National Institute of Astrophysics, in Rome, drier than expected and rich in organic compounds. That may excite those who wonder how the chemicals needed for life's development arrived on Earth. The comet's interior, meanwhile, says Holger Sierks of the Max Planck Institute for Solar System Research, in Göttingen, Germany, has only half the density of water. It is therefore probably porous and fluffy. And it ejects jets of material into space (see picture above), particularly from the neck that connects the two halves of the comet's peculiar dumbbell shape.

The reason for that shape, though, remains a mystery. Possibly, Dr Sierks speculates, Churyumov-Gerasimenko is made up of two comets which have collided and joined together. Determining the truth of this will require further investigation. ■



## Archaeology

## Scroll up, scroll up

**A novel technique can read classical texts once thought too delicate to examine**

**I**N 1752 Camillo Paderni, an artist who had been put in charge of the growing pile of antiquities being dug up at Herculaneum, a seaside town near Naples, wrote to a certain Dr Mead, who then wrote to the Royal Society in London reporting that “there were found many volumes of papyrus but turned to a sort of charcoal, and so brittle, that being touched, it fell to ashes. Yet by His Majesty’s orders he made many trials to open them, but all to no purpose; excepting some scraps containing some words.”

The excavation at Herculaneum—which, like nearby Pompeii, was buried in 79AD under ash from Mount Vesuvius—had uncovered a literary time capsule. What came to be called the Villa of the Papyri contained a library of perhaps 2,000 books, the only such collection known to have been preserved from antiquity.

Actually reading these scrolls has, however, proved both tricky and destructive—until now. For a paper just published in *Nature Communications*, by Vito Mocella of the Institute for Microelectronics and Microsystems, in Naples, describes a way to decipher them without unrolling them.

The history of the books is tragic. Many were dumped before anyone realised what they were. Perhaps 1,100 were saved, but early attempts to read these were equally destructive. Paderni simply took a knife to them, and though his contemporary Antonio Piaggio, a conservator from the Vatican, managed to build a rack that suspended them from silken threads, letting them unroll under their own weight for months on end, they still tended to break into pieces. Attempts continued into the 20th century, when Norwegian scientists tried applying a gelatine-based adhesive that shrank when it dried, peeling the scrolls’ layers apart in the process. This still, though, left many scrolls in fragments.

Some of these fragments can be read with the naked eye. Others require trickery, such as “multispectral imaging”, a way of increasing contrast by comparing pictures taken under different colours of light. Moreover, the outermost layers of those scrolls examined, and thus the beginnings of the books concerned, have proved too delicate for any technique before Dr Mocella’s to recover. What has been learned is, nevertheless, tantalising.

The library is composed mostly of treatises on the philosophy of Epicurus, a Greek philosopher of the late fourth and early third centuries BC. At least 44 are by a

single author: Philodemus, an empiricist, who was a close friend of Calpurnius Piso, Julius Caesar’s father-in-law. Many historians thus believe the villa originally belonged to Piso, though both he and Philodemus had been dead more than a century at the time of the eruption.

The attentions of previous investigators mean that most of the scrolls are now in pieces. Still, over 200 remain untouched, and it is to these that Dr Mocella turned his attention. He used x-rays to probe them—but not any old x-rays. His are generated by the European Synchrotron Radiation Facility (ESRF), in Grenoble, France.

### A coherent argument

The way x-rays are used in hospital radiology departments, to show differences in density—as between bones and surrounding tissue—would not work on the scrolls. The inks of antiquity were made of soot: nearly pure carbon, the same stuff that the charred papyri now consist of. A normal x-ray image would thus look blank. Instead, Dr Mocella employs phase-contrast imaging, a technique which works because the ink in the scrolls has not been absorbed into the papyrus, but instead sits on top of it. That means an x-ray takes a tiny bit longer to traverse a part of a papyrus that has ink on it than one that does not.

This difference is detectable, however, only if the x-ray beam is coherent—meaning that the waves it is made up of start off in step with one another. When such a beam has passed through a scroll, its waves will no longer be in step. Some will have been slowed down only by the papy-

rus while others have been slowed by both papyrus and ink. The former and the latter will interfere with one another, reinforcing each other in some places and cancelling each other out in others, thus producing a pattern that indicates just where the x-rays were delayed by ink.

X-rays from a normal source are not coherent, but those from the ESRF, an instrument Dr Mocella knows well because he used it for his doctoral work, are. He therefore begged some time on it (it is more usually devoted to things like materials science and protein crystallography) and tried it out on two scrolls.

He and his colleagues rotated each scroll in the ESRF’s beam and stitched the resulting interference patterns together using a computer. They ended up with three-dimensional scans of the scrolls, inside which the individual letters can be read.

Their work is still in its early stages, and the team has so far managed to decipher only a few phrases. But Dr Mocella believes the software used to unpick the diffraction patterns can be improved, and that probing scrolls using x-rays of different wavelengths will increase the amount of contrast in the images.

There is much at stake. Epicurus wrote a 37-volume treatise on empiricism called *On Nature*, perhaps the most comprehensive basis in classical times for the modern notion of learning through experimentation. Fragments of ten of the volumes have been found among the villa’s treasures, so there is a good chance that more lie among the unexamined scrolls.

For Dirk Obbink, a professor of classics at Oxford University, the promise lies in at last being able to look at the opening words of a classical book: dedications and forewords with rich and never-before-seen historical content. These would probably confirm, for example, whether the villa really was Piso’s. As Dr Obbink puts it, “I’m planning on living long enough to read one of those with the new technology. Last week, I wasn’t.” ■



Philosophy of science



## Democracy and America's civil war

## The whole family of man

## Why the war between North and South mattered to the rest of the world

**H**ISTORIANS of the American civil war find themselves in the same unenviable position as Shakespeare scholars: so thoroughly have their fields of study been tilled that finding a nearly virgin corner is all but impossible. But Don Doyle, a professor at the University of South Carolina, has broken new ground in an enlightening and compellingly written book, "The Cause of All Nations". More than any previous study, it tells the story of how America's civil war was perceived, debated and reacted to abroad, and how that reaction shaped the course of the war at home.

Mr Doyle reminds readers that the war began just 13 years after the European uprisings of 1848. It looked as though America's then 80-year experiment with self-government was nearing a violent end; European royalists and aristocrats reacted with glee, republicans with despair.

Both the Union and the Confederacy eagerly sought foreign support and funding. In retrospect it seems clear how the sides should have aligned: the abolitionist Union should have found a natural partner among republicans, who were pushing for greater popular sovereignty in Europe, whereas the Confederacy, with its pseudo-aristocracy resting on the profits of forced labour, should have appealed to Europe's reactionary forces.

At the war's outset, however, things were not so simple. Confederate diplomats framed their struggle in accordance with liberal principles of self-determination. They judged the conflict, Mr Doyle notes, to be "one arising naturally between industrial and agrarian societies, not freedom and slavery." The North's response, meanwhile, was flat-footed, legalistic and intemperate. America's secretary of state threatened to "wrap the whole world in flames", promising total war on any state that dared aid the Confederacy. For domestic reasons, Abraham Lincoln, then America's president, was unwilling to cite slavery as the war's principal point of dispute.

European observers showed no such hesitancy, nor did the Confederacy. (Alexander Stephens, the Confederate vice-president, said that its cornerstone "rests upon the great truth that the negro is not equal to

**The Cause of All Nations: An International History of the American Civil War.** By Don Doyle. Basic Books; 382 pages; \$29.99

the white man; that slavery, subordination to the superior race, is his natural and moral condition.") Giuseppe Garibaldi, a hero of the 1848 uprisings, was set to amass an army to fight for the North. He demurred largely because the Union was unwilling to declare emancipation as the war's goal. Carl Schurz, ambassador to Spain, urged Union officials in Washington to "place the war against the rebellious slave States upon a higher moral basis and thereby give us the control of public opinion in Europe."

Schurz comes off as one of the most perspicacious characters in Mr Doyle's book, but that is rather like being the tallest midjet in the circus. Once the Union at last firmly identified with the ending of slavery, public opinion in Europe moved slowly but inexorably in its favour, though that shift owed more to existing anti-slavery sentiment in Europe than to any particular

skill among Union diplomats. Their Confederate counterparts were even less competent; whatever brief successes they enjoyed owed more to European rulers' desire to see America fail for strategic reasons than to any sympathy with the Southern cause. (Napoleon III wanted to expand France's overseas influence and saw a united America as a military impediment and the Confederacy as a potential ally, whereas Britain's prime minister, Lord Palmerston, feared the spread and appeal of republican democracy and saw a united America as a political threat.)

Most histories of the civil war turn inward at the end and examine the war's consequences and legacy for America. Mr Doyle turns outward to show how important America's civil war was to the rest of the world: liberty and democracy defeated slavery and the landed gentry.

The Union's victory had wider repercussions. Spain, fearing American naval power, began withdrawing from its colonies in Latin America and the Caribbean. Ulysses Grant, a civil-war general, turned his military attention south, to Mexico, where Napoleon III had installed an Austrian, Maximilian, as emperor. When the threat of an alliance between France and the Confederacy was dashed, Napoleon withdrew his support and in 1867 Maximilian was executed by Mexican troops. Across the ocean, Britain's republicans marched to victory that same year, forcing the passage of the Reform Act, while Napoleon III lasted just four more years, until the Paris Commune seized France's capital. Democracy had not just survived, but flourished.

After Lincoln's death *Avenir National*, a French newspaper, wrote that he "represented the cause of democracy in the largest and the most universal understanding of the word. That cause is our cause, as much as it is that of the United States." To commemorate the Union's victory a French artist crafted a statue out of copper sheeting, a figure representing freedom, tall and proud, holding a torch aloft. The Statue of Liberty stands today in New York harbour, the copper now green with age, her gaze fixed across the Atlantic on Europe. ■



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## Civil-war fiction

## Heroic words

**Neverhome.** By Laird Hunt. Little Brown; 256 pages; \$26. Chatto & Windus; £12.99

ONE remarkable feature of contemporary American literature is the way that the civil war, over now for 150 years, still has the power to inspire highly original fiction: think of recent prize-winners such as "March" by Geraldine Brooks, Charles Frazier's "Cold Mountain" and "Oldest Living Confederate Widow Tells All" by Allan Gurganus. Now comes "Neverhome", Laird Hunt's seventh work of fiction and his first novel to be published in Britain. It arrives with a long list of plaudits from luminaries including Paul Auster, Kevin Powers and Michael Ondaatje.

An Odyssean tale about going off to war, "Neverhome" introduces the unforgettable Ash Thompson, known as Gallant Ash, a tree-climbing sharpshooter with very definite views. As Ash steps across the state border from Indiana into Ohio, the would-be fighter falls in with a band of boys on the lookout for recruiting stations. "After they had cracked on my teeth and whistled at my thick fingers

and had me scrape my thumb callouses across the wood tabletop, they gave me my blues. A week later, when they saw I didn't mind work and hadn't run off, they handed me my firearm." Gallant Ash hides a warm heart, but that's not all; she is a woman, and the Penelope this unusual Odysseus has left behind is a gentle soul named Bartholomew. "I was strong and he was not, so it was me went to war to defend the Republic."

Ash discusses these secrets at night in a series of monologues with her dead mother, secure in the knowledge that she would have supported Ash's decision. But it is the beaten-up landscape around her that Ash conjures up for Bartholomew, and the crippled farmstead to which she returns at the end, that bring home to the reader the terrible price that America paid for turning on itself. With nothing but the simple language of well-worn words, Mr Hunt has conjured up a wholly original heroine with an utterly fresh voice. Published to great acclaim in America last year, "Neverhome" comes out in Britain early next month. A book that deserves a wider readership.

## China and Pakistan

## Geopolitical friends

**The China-Pakistan Axis: Asia's New Geopolitics.** By Andrew Small. C. Hurst & Co; 319 pages; £30

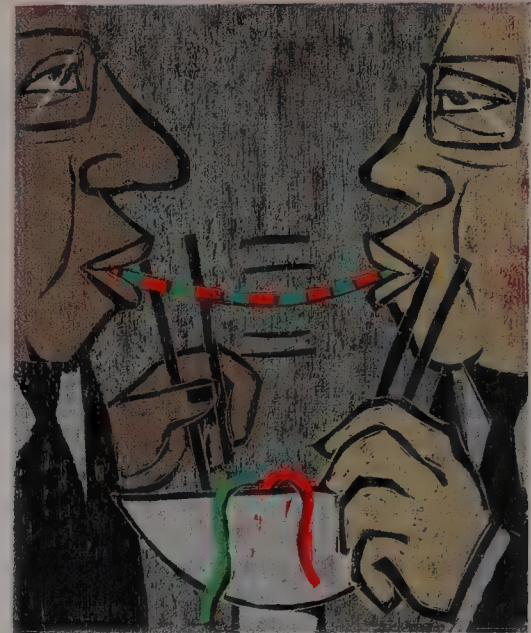
WHEN China sent swift condolences to Pakistan after the slaughter of over 130 schoolchildren in a terror attack in Peshawar last month, it was more than a perfunctory gesture. The two countries have such a long-standing and harmonious relationship that both sides sometimes come close to believing the official mantra that the ties that bind them really are higher than the highest mountains.

Yet misgivings also abound, as Andrew Small, an Asia expert at the German Marshall Fund of the United States, points out in an impressive account of a little-understood friendship. China is growing increasingly squeamish about the dangers of having Islamist extremists just across the border. Chinese engineers working on aid projects in Pakistan have been killed by Pakistani extremists. In 2007 Chinese massage-parlour employees were held hostage

by militants in Islamabad. The authorities in the capital do not do enough, the Chinese complain, to destroy Pakistani havens of the East Turkestan Islamic Movement, a Muslim separatist group drawn from the Uighur ethnic minority who live in China's western Xinjiang region.

"China has a good understanding of almost everything in Pakistan, political, security or economic, that might affect the bilateral relationship, but there is one piece they just don't get: Islam," Mr Small quotes a Pakistani China specialist as saying. It was especially embarrassing to Pakistan that on the day the retiring head of the army, Ashfaq Parvez Kayani, paid his last visit to China in October 2013 a car with three Uighurs and packed with explosives burst into flames in Tiananmen Square. "The most damning narrative would be hard to shake off—that a Pakistan-based Uighur separatist group masterminded a successful suicide attack in the most visible location in China during the valedictory visit of Pakistan's army chief," Mr Small writes.

Still, if there were recriminations they were not made public. Indeed, as Mr Small argues, China's ties with Pakistan, which were established during Mao's rule and are based on shared hostility towards India, thrive on many common interests. A long history of secret deals between their



two armies—overrides the problems with Islamic extremism.

Six years of research have enabled Mr Small to produce a detailed account of decades of close dealings between the two countries. In that time he won the confidence of many sources in the Chinese army, military intelligence and the security services. Their officials are as tight-lipped as the Pakistanis are garrulous. Yet he managed to loosen them up, at least enough.

Mr Small describes a friendship that is more enduring and has far better prospects than Pakistan's up-and-down connection with America. The high points of that relationship—as when Pakistan facilitated the groundbreaking visit of Henry Kissinger to China in 1971 which led in turn to Richard Nixon's historic trip to Beijing and later during the Soviet invasion of Afghanistan—have long since passed.

China helped Pakistan acquire the nuclear bomb, and is Pakistan's biggest supplier of military equipment. Now it is building two sizeable civilian nuclear reactors that should help ease the country's chronic energy shortfall. As China expands its reach throughout Asia, Pakistan has become central to its plans for a network of ports, pipelines, roads and railways that will bring oil and gas from the Middle East. The Chinese government is offering tens of billions of dollars for Pakistani projects, Mr Small says. As America's influence recedes, China is stepping in, though officials will doubtless keep a wary eye on Pakistan's nuclear weapons.

Part of China's justification for spending so much is to bring stability to Pakistan, an argument that the Obama administration has also used, though with little success. Mr Small seems to think the Chinese will have better luck. He may be too optimistic about their ability to achieve much, but given the feckless Pakistani governance that he so ably describes, he has every right at least to hope the Chinese will help restore some order to the chaos. ■



## African refugees

## Finding his feet

**A Man of Good Hope:** By Jonny Steinberg. Knopf; 336 pages; \$26.95. Jonathan Cape; £18.99

IN MAY 2008 frenzy gripped many of South Africa's townships and shanty towns. Their residents—poor, black and unemployed—turned on those even closer to the margins of society than themselves: black immigrants from elsewhere in Africa. In the days that followed more than 60 people were killed and tens of thousands were driven from their homes. Among those displaced were hundreds of Somali immigrants, many of whom earned their living running small convenience stores (known as *spaza* shops) from shacks.

One was Asad Abdullahi, who had fled Somalia as an eight-year-old boy before making his way via Kenya, Ethiopia and several other stops in between to a field of shacks near Cape Town. He made the perilous journey south, drawn by the dream of living in a country governed by Nelson Mandela, where the police could not capriciously lock people up and where those thought to be dissidents did not simply disappear. Yet Mr Abdullahi's attempts to start a new life in South Africa were repeatedly thwarted by violence. A cousin who ran a *spaza* and got Mr Abdullahi a job ferrying supplies was shot and killed a few months later in a robbery.

In less than a year, a business partner with whom he opened a *spaza* in a small rural community was robbed and stabbed to death in his shop by a regular customer. His partner's wife, who rushed to help her husband, suckling babe in arms, bent to cradle his head and then looked down to see her baby daughter crawling through a pool of her father's blood.

The unrelenting horror of Mr Abdullahi's life is compellingly told in "A Man of Good Hope", an engrossing book by Jonny Steinberg, a South African academic and journalist. As he has masterfully done with his earlier books—one on South Africa's HIV epidemic and another on a murderous struggle over land between white farmers and their black neighbours—Mr Steinberg looks at broad social and political themes through the eyes of a single protagonist. In his new book Mr Steinberg describes the chaos of the Somali civil war, the dangerous, uprooted lives of refugees in Africa, the richness of the social bonds that tie together the Somali immigrants who go to South Africa and the precarious living they make running isolated cash businesses deep in the townships.

For Mr Abdullahi the final disappoint-

ment comes after he moves to a township near Cape Town, in the hope that life there will be less violent. One night, after hearing of spreading riots on the news and taking calls from Somali friends as they are being burnt out of their shops, he hears a crowd gathering outside his own store. Former neighbours and customers set upon him, beating him, looting the shop and burning it to the ground. His bewilderment seems matched by that of Mr Steinberg, who, although he faithfully recounts these events, is unable to explain the spasm of violent xenophobia that sometimes sweeps through South Africa. If the madness is inexplicable, the humanity, suffering and bravery of Mr Abdullahi are palpable and make "A Man of Good Hope" a book well worth reading. ■

## Families and totalitarianism

## Behind closed doors

**Family Politics: Domestic Life, Devastation and Survival 1900-1950.** By Paul Ginsborg. Yale University Press; 520 pages; \$35 and £25

THE rise of nationalist and totalitarian ideologies in Europe profoundly affected the family. Having been both bolstered and confined by religion and custom under the old order, the oldest human institution was transformed, distorted and sometimes destroyed by what followed.

In "Family Politics", a haunting, vivid and thought-provoking new work of social history, Paul Ginsborg, a British-born pro-

fessor in Florence, uses the prism of family life to make sense of the first half of the 20th century in the five European countries to which it brought the sharpest changes. They are Italy under Benito Mussolini, Germany under the Nazis, Spain during the civil war and under General Franco, Turkey under Mustafa Kemal Atatürk and Russia (later the Soviet Union) in the revolution and under Joseph Stalin.

The main threads in his account of revolution and dictatorship are the lives of three remarkable women, notably Aleksandra Kollontai, who was born into an upper-middle-class Russian family and became a fiery revolutionary and the chief theorist of Bolshevik sexual politics. Her Turkish counterpart was a nationalist writer, Halide Edib, and in Spain a Republican activist, Margarita Nelken. All of them wrestled with the clash between their political principles and their family reality.

Mr Ginsborg also explores the family lives of the strongmen and their henchmen. Atatürk was an appalling husband, an emotional cripple who spent the first night of his honeymoon drinking with his male friends. Stalin, abused as a boy, persecuted his own family. Mussolini's loveless home life was as shallow and ramshackle as his regime. The Goebbels family was apparently the epitome of cloyingly sentimental Nazi values. But its fate was macabre. The parents killed six of their seven children and then themselves in Hitler's bunker as the Third Reich collapsed.

"Family Politics" benefits from some fine illustrations, including photographs, propaganda posters and paintings, as well as Adolf Hitler's favourite picture: a creepy tableau of an idealised peasant family (pictured). Perhaps most poignant is the last ►►



Bleak house



► image in the book: the desperate faces of 20 anonymous small children incarcerated in a Soviet secret-police institution in the late 1930s, to which the offspring of “traitors to the fatherland” were consigned to die of starvation, illness and neglect.

The different regimes all wanted families to be functional, productive and obedient parts of the new order, but they promoted these aims in radically different ways. In Turkey, female emancipation was the urgent priority. (An American writer of the time quoted in the book, Hester Donaldson Jenkins, described despairingly how women in the Ottoman empire spent most of their time in listless passivity, or as she put it: “sitting.”) Atatürk in 1926 introduced the modern and liberal Swiss Civil Code, giving women unheard-of legal status. Whereas he saw family, state and society as separate entities, in Hitler’s Germany, as in the Soviet Union, the state came first, and at a terrible cost in broken hearts and lives.

In Spain, fascism claimed to protect Roman Catholic family dogma. The Spanish Republican authorities had introduced divorce before the civil war; the victorious fascists outlawed it (and showed a ruthlessly unChristian viciousness to their defeated adversaries and their families). In Fascist Italy, neo-paganism and Mussolini’s cult of virility, including a “celibacy” tax levied on all unmarried men other than priests, monks, soldiers and the gravely handicapped, coexisted uneasily with traditional Catholicism.

Mr Ginsborg provides enough historical background to make sense of the lives he portrays but without distracting the reader from them. Striking details and insights abound. The Bolshevik ideas of sexual liberation fizzled out, partly because Lenin thought promiscuity was “bourgeois”, but also because experiments in communal living (including shared underwear) proved unworkable. The Nazis organised workers’ cruises to Italy, but found them marred by perplexingly lewd behaviour and drunkenness.

Perhaps wisely, Mr Ginsborg does not try to draw too many systemic comparisons. All the regimes bolstered families in some ways and undermined them in others. The Nazi system prized families with the right “racial value”—and tried to exterminate the rest. But even Aryan families came under huge strain. The Nazi youth organisations eroded parents’ authority and children’s loyalties, though not nearly as much as the Soviet Union, which turned snitching into a patriotic duty and punished those who remained loyal to the regime’s victims. As a result, families were fractured not just physically, but emotionally as well. More than in any of the other countries Mr Ginsborg writes about, the trauma of that particular horror persists to this day. ■

## American ceramics

# Feat of clay

BOSTON

**How the humble mug came to be regarded as a work of art**

USELESSNESS has its uses in art. In fact, sometimes art is defined by uselessness. An object that remains functional never quite gains the aura that is normally associated with the highest creations of the imagination. Ceramic objects must overcome a double barrier before they can be regarded as aesthetically important: pottery has to perform humble domestic functions, and it is made of the most commonplace material.

For a century and more, many ambitious ceramicists have laboured to lift the status of their craft. In the process, they have left behind any notion of utility, creating objects that, while they may nod to their antecedents in the cup, the jug or the storage jar, are gloriously (and often preposterously) impractical.

“Nature, Sculpture, Abstraction, and Clay: 100 Years of American Ceramics”, which has just opened at the Museum of Fine Arts in Boston, tells the story of how ceramic artists strived to elevate their *métier*, sometimes drawing on the work of their European colleagues (many of the most innovative were recent immigrants) and sometimes building on native traditions, to turn a craft into a fine art.

With over 70 works by nearly 50 artists,



So refined

this exhibition covers a lot of ground in a small space. Compact, if conceptually substantial, it opens with a couple of 19th-century vases that embody the Arts and Crafts ethic of investing utilitarian objects with value through handwork and refined, nature-inspired imagery. John Bennett’s “Lilac Vase” from 1878-83 (pictured) is gorgeously decorative, its surface brought to a glassy finish and festooned with sprays of white petals against a deep cobalt ground.

Turning the surface of the vessel into an exquisite canvas—a neutral surface to showcase the painter’s skill—is one way to transform the humble household item into a work of art. Yet some want to draw attention to the vessel’s earthy origin rather than conceal it. In the case of George Ohr, known as the “Mad Potter of Biloxi”, nature has devolved from being a decorous bouquet to a swampy bayou, as if form has melted in the tropical heat. In his “Vessel” (1878-1908) the body provides more than a neutral support for the image; it seems to emerge organically—a tumescent toadstool, bent and fleshy, upon which a snake slithers happily in its element.

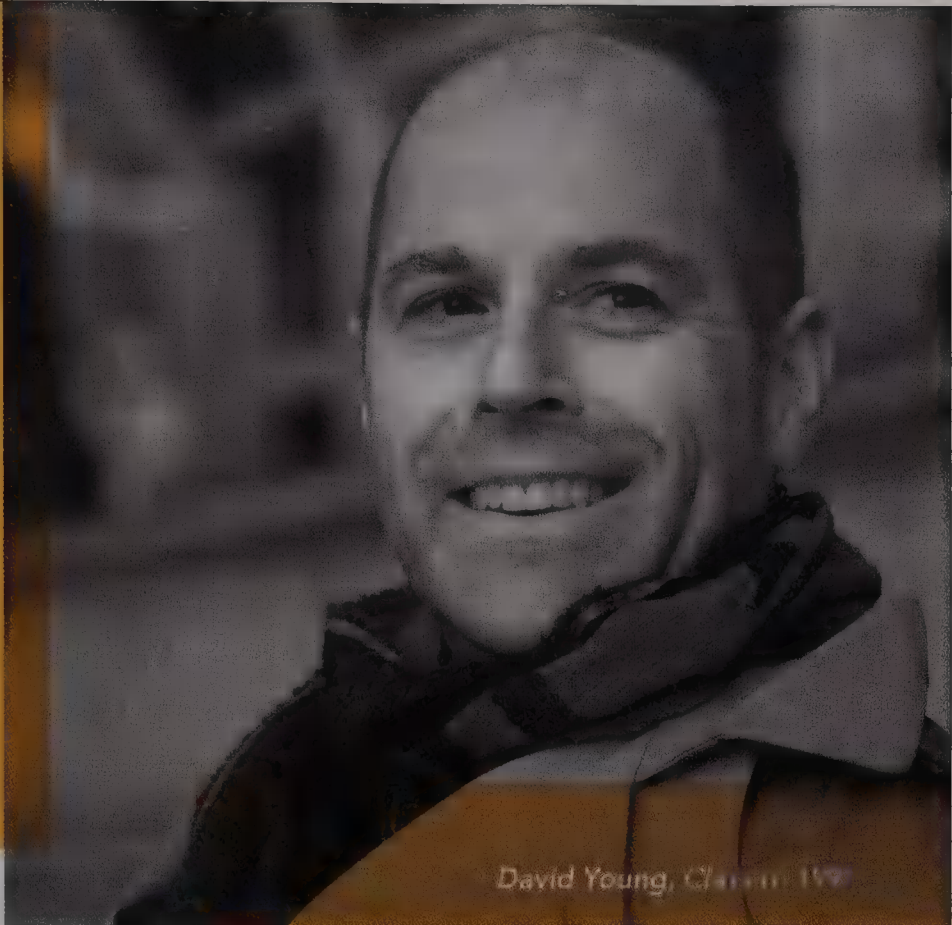
Given the ambition of these potters, it is not surprising that they were caught up in the 20th century’s many aesthetic revolutions, though in each case the translation into clay provided unique challenges and opportunities. Peter Voulkos worked harder than anyone to challenge the age-old alliance of ceramics with the utilitarian. His chunky, clunky “Untitled” from 1959-60 bears only the faintest resemblance to a traditional vessel. It is an abstract form, as wild and expressive as anything conjured by Jackson Pollock, slapped together as if by a drunken carpenter and splattered with eye-popping colours. No contrast greater to Bennett’s preciousness can be imagined, though both undercut the notion of ceramics as merely a utilitarian craft.

As the high drama of Abstract Expressionism gave way to the cool irony of Pop, ceramic artists followed suit. Robert Arneson’s “Alice Plate” (1968) depicts a slice of American suburbia, bland and prefabricated, while “Mickey Mouse Vase” (1986) by Michael and Magdalena Suarez Frimkess pokes fun at that most American of cultural icons, demonstrating that ceramics can offer social commentary that is every bit as subversive as works on canvas.

No object in the show breaks more sharply from millennia of tradition than Cheryl Ann Thomas’s “December” (2013). Fabricated in the ancient technique of coil building, this abstract sculpture does not appear to be made from clay at all. Fooling the eye into seeing a soft pile of blue-and-white fabric, it is a marvel of *trompe l’oeil* magic. Supremely useless, it stands on its own as pure form. Despite deploying the most time-tested of skills, this is definitely not your grandmother’s coffee mug. ■



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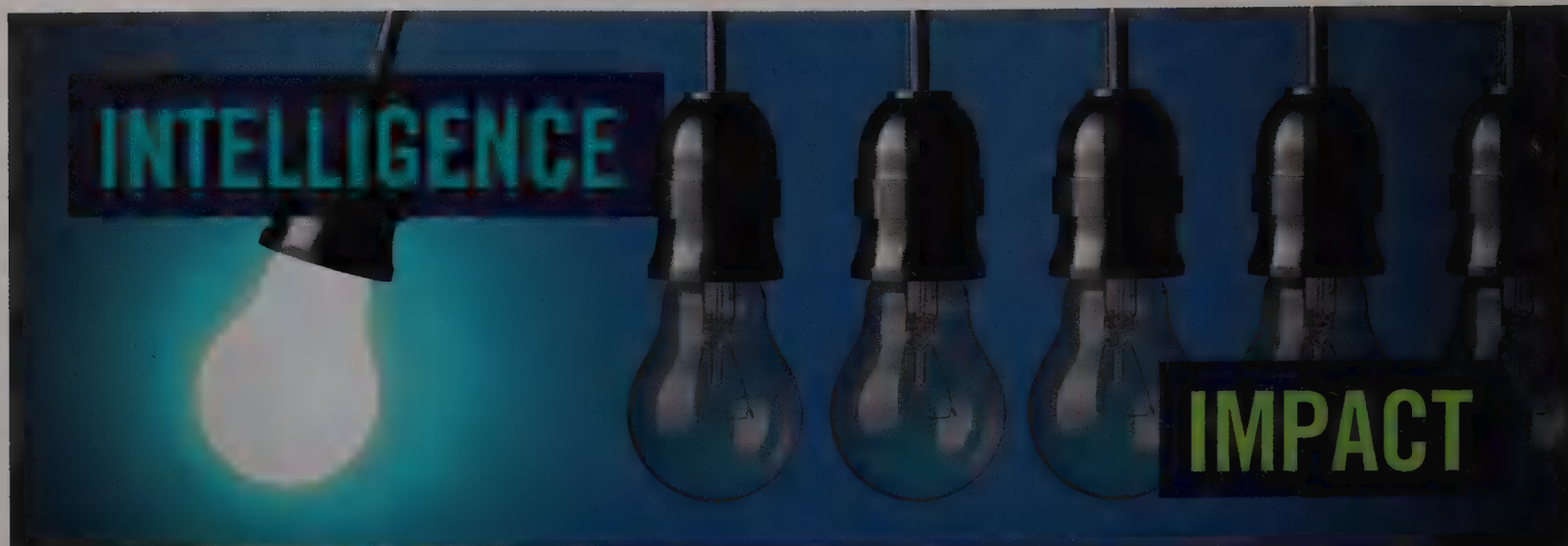
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## Tenders

### REQUEST FOR EXPRESSIONS OF INTEREST (ROEI)

#### Project Management Consultant for The Program of Medical Mobile Clinics for Health Care in Rural Areas in Some Member Countries and Muslim Communities

The Islamic Development (IsDB) has received a donation of US\$266.67 million to establish 75 mobile clinics in rural areas in some Muslim states and communities (hereinafter referred to as "the Program"). IsDB was entrusted on the implementation of the Program in seven countries namely, Tajikistan, Kyrgyz, Yemen, Afghanistan, Pakistan and others.

So far, the IsDB signed an Agreement with the Governments of Yemen, Tajikistan and Kyrgyz. The program will be implemented under the overall supervision and management of the Bank through a Project Management Consultant (PMC) with the coordination of the concerned authorities in the targeted countries. The services of the PMC may be provided by a consulting firm (Consultant) with adequate experience in the field.

The IsDB now invites eligible firms to indicate their interest in providing the PMC. Interested firms must provide information indicating that they are qualified to perform this task (brochures, description of similar assignments, experience in similar conditions, availability of appropriate skills among staff, etc.). Experience in the following scope shall be the minimum requirement for the assignments.

**Scope of Service:** Under the overall guidance of the Bank, the Consultant will provide complete project leadership and management services (including time and resource management), planning services including appraisals of the clinics requirements in the seven areas/countries, as well as supervision of implementation and setting up the scope, methodologies and procedures for sub-projects in each targeted location, preparing the procurement documents, supervision of contract management and quality monitoring of all activities, including works, procurement and services to be provided under the project. The consultant will have to make his own arrangements for office, utilities, accommodation and transport. The service will be for 5 years.

The firms may associate to enhance their qualifications and clearly specify the type of association.

A firm will be selected in accordance with the procedures set out in IsDB Procurement Guidelines under Islamic Development Bank Financing, refer to IsDB web site ([isdb.org](http://isdb.org)).



Interested firms may obtain further information and expressions of interest must be delivered to the address below latest **by 25 February 2015 (4:00PM)** via courier and notification by email with the subject (MMUs: ROEI: Firms Interested: "your company name").

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Tenders




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**NUMBER: (PRQ20141055)**

On behalf of Tanzania Port Authority (TPA), TradeMark East Africa (TMEA) seeks to contract a consultancy firm to provide a Port Engineer and a contract management specialist for the Dar Es Salaam Maritime Gateway Program (DGMP).

The Request for Proposals (RFP) document can be obtained at [www.trademarkea.com](http://www.trademarkea.com). All queries quoting the above Tender Title and Number in the email subject should be emailed to [procurement@trademarkea.com](mailto:procurement@trademarkea.com). The closing date for submission is **16th February 2015** no later than 11.00 a.m. Tanzania time.




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The Economist January 24th 2015

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## Economic data

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance % of GDP 2014†	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$	
	latest	qtr* 2014†	2014†		latest	2014†		latest 12 months, \$bn	% of GDP 2014†			Jan 21st	year ago
United States	+2.7 Q3	+5.0	+2.3	+4.9 Dec	+0.8 Dec	+1.6	5.6 Dec	-388.1 Q3	-2.3	-2.8	1.78	-	-
China	+7.3 Q4	+6.1	+7.3	+7.9 Dec	+1.5 Dec	+2.1	4.1 Q2§	+196.6 Q3	+2.4	-3.0	3.42§§	6.21	6.05
Japan	-1.3 Q3	-1.9	+0.3	-3.7 Nov	+2.4 Nov	+2.8	3.5 Nov	+16.1 Nov	+0.3	-8.2	0.22	118	104
Britain	+2.6 Q3	+3.0	+2.9	+1.1 Nov	+0.5 Dec	+1.4	5.8 Oct††	-163.0 Q3	-4.8	-5.5	1.58	0.66	0.61
Canada	+2.6 Q3	+2.8	+2.4	+3.4 Oct	+2.0 Nov	+1.9	6.6 Dec	-41.2 Q3	-2.4	-1.9	1.43	1.21	1.10
Euro area	+0.8 Q3	+0.6	+0.8	-0.4 Nov	-0.2 Dec	+0.4	11.5 Nov	+318.0 Nov	+2.4	-2.5	0.53	0.86	0.74
Austria	-0.1 Q3	-1.6	+0.7	-2.3 Oct	+1.0 Dec	+1.3	4.9 Nov	+2.4 Q3	+1.5	-2.5	0.54	0.86	0.74
Belgium	+0.9 Q3	+1.2	+1.1	-0.6 Oct	-0.4 Dec	+0.6	8.5 Nov	+8.0 Sep	-0.5	-3.0	0.73	0.86	0.74
France	+0.4 Q3	+1.0	+0.4	-2.6 Nov	+0.1 Dec	+0.6	10.3 Nov	-29.1 Nov†	-1.3	-4.4	0.65	0.86	0.74
Germany	+1.2 Q3	+0.3	+1.4	-0.6 Nov	+0.2 Dec	+0.8	6.5 Dec	+283.5 Nov	+7.3	+0.8	0.53	0.86	0.74
Greece	+1.9 Q3	+3.0	+0.8	+2.3 Nov	-2.6 Dec	-1.3	25.8 Oct	+3.0 Nov	+1.5	-4.0	9.46	0.86	0.74
Italy	-0.5 Q3	-0.6	-0.3	-1.8 Nov	nil Dec	+0.2	13.4 Nov	+36.7 Nov	+1.5	-3.0	1.75	0.86	0.74
Netherlands	+1.0 Q3	+0.5	+0.7	+0.6 Nov	+0.7 Dec	+0.6	8.0 Nov	+91.5 Q3	+9.7	-2.6	0.49	0.86	0.74
Spain	+1.6 Q3	+2.0	+1.3	-0.1 Nov	-1.0 Dec	-0.2	23.9 Nov	-2.2 Oct	+0.2	-5.6	1.53	0.86	0.74
Czech Republic	+2.7 Q3	+1.7	+2.2	-0.4 Nov	+0.1 Dec	+0.4	7.5 Dec§	+0.2 Q3	-1.1	-1.6	0.45	24.2	20.3
Denmark	+1.0 Q3	+1.6	+0.8	-1.4 Nov	+0.3 Dec	+0.5	5.0 Nov	+22.0 Nov	+6.6	-1.3	0.62	6.42	5.50
Hungary	+3.2 Q3	+1.9	+3.0	+5.8 Nov	-0.9 Dec	nil	7.2 Nov§††	+5.7 Q3	+4.2	-2.9	3.10	274	223
Norway	+2.1 Q3	+2.0	+2.3	+2.1 Nov	+2.1 Dec	+2.0	3.8 Oct††	+49.2 Q3	+11.1	+12.0	1.47	7.67	6.18
Poland	+3.4 Q3	+3.6	+3.3	+8.4 Dec	-1.0 Dec	+0.1	11.5 Dec§	-7.2 Nov	-1.2	-3.5	2.29	3.74	3.07
Russia	+0.7 Q3	na	+0.6	-0.3 Nov	+11.4 Dec	+7.7	5.2 Nov§	+56.6 Q4	+2.6	+0.4	13.58	65.5	33.8
Sweden	+2.1 Q3	+1.3	+1.9	-5.0 Nov	-0.3 Dec	-0.2	7.4 Nov§	+36.5 Q3	+5.8	-2.2	0.75	8.18	6.48
Switzerland	+1.9 Q3	+2.6	+1.7	-0.4 Q3	-0.3 Dec	nil	3.2 Dec	+45.7 Q3	+10.5	+0.3	-0.20	0.88	0.91
Turkey	+1.7 Q3	na	+3.0	-1.2 Nov	+8.2 Dec	+8.9	10.4 Oct§	-47.1 Nov	-5.4	-1.4	7.12	2.36	2.24
Australia	+2.7 Q3	+1.4	+2.8	+3.8 Q3	+2.3 Q3	+2.5	6.1 Dec	-42.9 Q3	-3.1	-2.6	2.60	1.24	1.14
Hong Kong	+2.7 Q3	+6.8	+2.4	-1.7 Q3	+5.1 Nov	+4.4	3.3 Dec††	+7.7 Q3	+1.8	+0.8	1.46	7.75	7.76
India	+5.3 Q3	+8.1	+6.0	+3.8 Nov	+5.0 Dec	+7.2	8.8 2013	-23.4 Q3	-2.0	-4.3	7.69	61.7	61.6
Indonesia	+5.0 Q3	na	+5.0	+7.8 Nov	+8.4 Dec	+6.4	5.9 Q3§	-24.0 Q3	-2.8	-2.3	na	12,584	12,110
Malaysia	+5.6 Q3	na	+5.9	+4.7 Nov	+2.7 Dec	+3.1	2.7 Oct§	+18.0 Q3	+4.2	-3.6	3.97	3.61	3.32
Pakistan	+5.4 2014**	na	+5.4	+1.8 Oct	+4.3 Dec	+7.2	6.2 2013	-3.5 Q4	-2.6	-5.5	10.25†††	101	106
Singapore	+1.5 Q4	+1.6	+2.8	-2.8 Nov	-0.3 Nov	+1.1	2.0 Q3	+58.9 Q3	+21.6	+0.5	1.88	1.34	1.28
South Korea	+3.3 Q3	+3.7	+3.5	-3.4 Nov	+0.8 Dec	+1.3	3.4 Dec§	+88.5 Nov	+5.7	+0.6	2.37	1,088	1,064
Taiwan	+3.6 Q3	+2.6	+3.6	+6.7 Nov	+0.6 Dec	+1.3	3.8 Dec	+65.0 Q3	+11.7	-1.4	1.54	31.6	30.1
Thailand	+0.6 Q3	+4.4	+0.7	-3.5 Nov	+0.6 Dec	+1.9	0.6 Nov§	+10.2 Q3	+2.6	-2.5	2.66	32.7	32.8
Argentina	-0.8 Q3	-2.1	-0.4	-2.1 Nov	— ***	—	7.5 Q3§	-5.0 Q3	-1.0	-2.8	na	8.61	6.83
Brazil	-0.2 Q3	+0.3	+0.1	-5.7 Nov	+6.4 Dec	+6.3	4.8 Nov§	-88.7 Nov	-4.0	-5.5	11.77	2.63	2.34
Chile	+0.8 Q3	+1.5	+1.8	-2.9 Nov	+4.6 Dec	+4.4	6.1 Nov§††	-5.0 Q3	-1.7	-2.3	4.18	630	540
Colombia	+4.2 Q3	+2.6	+4.8	-1.0 Nov	+3.7 Dec	+2.9	7.7 Nov§	-16.2 Q3	-4.3	-1.5	6.66	2,379	1,964
Mexico	+2.2 Q3	+2.0	+2.1	+1.8 Nov	+4.1 Dec	+3.9	4.4 Dec	-25.4 Q3	-2.0	-3.6	5.37	14.6	13.2
Venezuela	-2.3 Q3	+10.0	-3.1	+0.8 Sep	+63.6 Nov	+62.2	5.9 Nov§	+10.3 Q3	+0.7	-12.7	14.96	12.0	6.29
Egypt	+6.8 Q3	na	+2.2	+21.8 Nov	+10.1 Dec	+10.0	13.1 Q3§	-4.4 Q3	-3.0	-11.9	na	7.30	6.96
Israel	+2.6 Q3	+0.2	+2.4	-1.7 Nov	-0.2 Dec	+0.5	5.6 Nov	+11.2 Q3	+3.8	-3.0	1.88	3.93	3.49
Saudi Arabia	+3.6 2014	na	+4.1	na	+2.4 Dec	+2.8	5.6 2013	+120.1 Q3	+12.7	+1.2	na	3.76	3.75
South Africa	+1.4 Q3	+1.4	+1.6	-1.3 Nov	+5.3 Dec	+6.2	25.4 Q3§	-19.7 Q3	-5.1	-4.3	7.06	11.6	10.9

Source: Haver Analytics. \*\*% change on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. †New series. \*\*\*Year ending June. ††Latest 3 months. †††3-month moving average. §5-year yield. \*\*\*Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, Nov 41.61%; year ago 19.95% †††Dollar-denominated bonds.

The Economist

Events

## Azerbaijan is growing its economy through diversification—are you part of it?

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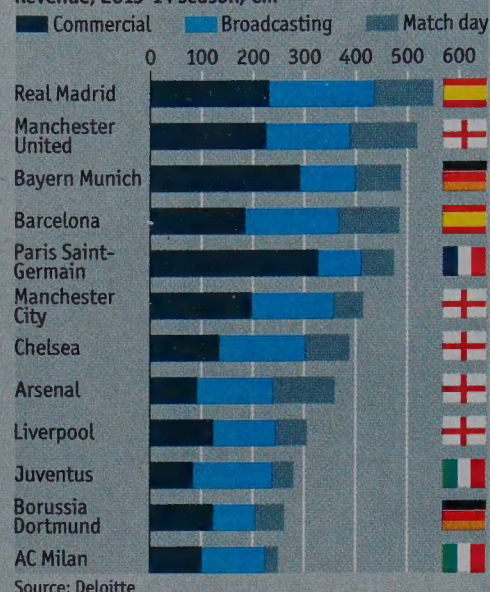
## Markets

	Index Jan 21st	% change on		
		one week	Dec 31st 2013 in local currency	in \$ terms
United States (DJIA)	17,554.3	+0.7	+5.9	+5.9
China (SSE)	3,482.9	+3.1	+57.3	+53.3
Japan (Nikkei 225)	17,280.5	+2.9	+6.1	-5.3
Britain (FTSE 100)	6,728.0	+5.3	-0.3	-9.0
Canada (S&P TSX)	14,560.4	+3.4	+6.9	-7.6
Euro area (FTSE Euro 100)	1,081.0	+5.7	+6.0	-10.9
Euro area (EURO STOXX 50)	3,269.7	+5.8	+5.2	-11.6
Austria (ATX)	2,191.9	+3.3	-13.9	-27.6
Belgium (Bel 20)	3,422.0	+4.5	+17.0	-1.6
France (CAC 40)	4,484.8	+6.2	+4.4	-12.2
Germany (DAX)*	10,299.2	+4.9	+7.8	-9.3
Greece (Athex Comp)	782.9	-4.5	-32.7	-43.4
Italy (FTSE/MIB)	19,981.4	+8.5	+5.3	-11.4
Netherlands (AEX)	441.1	+5.4	+9.8	-7.7
Spain (Madrid SE)	1,043.2	+4.8	+3.1	-13.3
Czech Republic (PX)	952.5	-0.7	-3.7	-20.7
Denmark (OMXCX)	716.3	+3.8	+26.6	+6.8
Hungary (BUX)	16,392.4	+2.0	-11.7	-29.9
Norway (OSEAX)	638.0	+3.3	+5.8	-15.8
Poland (WIG)	50,918.4	-1.9	-0.7	-19.2
Russia (RTS, \$ terms)	782.1	+5.3	+7.6	-45.8
Sweden (OMXS30)	1,501.2	+4.6	+12.6	-11.7
Switzerland (SMI)	8,008.6	-12.9	-2.4	+0.8
Turkey (BIST)	90,312.8	+3.1	+33.2	+22.6
Australia (All Ord.)	5,367.4	+0.7	+0.3	-9.1
Hong Kong (Hang Seng)	24,352.6	+1.0	+4.5	+4.5
India (BSE)	28,888.9	+5.6	+36.5	+37.0
Indonesia (JSX)	5,215.3	+1.1	+22.0	+19.0
Malaysia (KLSE)	1,770.1	+1.6	-5.2	-14.1
Pakistan (KSE)	34,329.5	+2.2	+35.9	+41.9
Singapore (STI)	3,354.5	+0.9	+5.9	+0.3
South Korea (KOSPI)	1,921.2	+0.4	-4.5	-6.9
Taiwan (TWI)	9,319.7	+1.5	+8.2	+2.4
Thailand (SET)	1,537.4	+0.9	+18.4	+19.3
Argentina (MERV)	8,673.8	+3.0	+60.9	+21.8
Brazil (BVSP)	49,224.1	+3.3	-4.4	-13.0
Chile (IGPA)	18,683.2	+1.2	+2.5	-14.2
Colombia (IGBC)	10,535.3	-0.3	-19.4	-34.2
Mexico (IPC)	42,488.7	+3.7	-0.6	-11.0
Venezuela (IBC)	2,942.8	+0.4	+44.1	na
Egypt (Case 30)	9,856.3	+3.3	+45.3	+37.4
Israel (TA-100)	1,275.2	-0.7	+5.6	-6.8
Saudi Arabia (Tadawul)	8,393.8	-0.8	-1.7	-1.8
South Africa (JSE AS)	49,588.8	+3.2	+7.2	-2.2

## Football wealth

Having become the first team to win the European Cup on ten occasions in 2014, Real Madrid has also claimed the title of world's highest-earning club for the tenth straight year. According to Deloitte's football money league the Spanish giants earned €549.5m (\$745m) in the 2013-14 season. Aggregate annual revenues from the world's 20 highest-earning clubs surpassed €6 billion for the first time, with ticket sales contributing the lowest share in the report's 18 years. Broadcasting rights and commercial deals are becoming increasingly important; the Premier League's lucrative television deals now mean that all 20 teams in the English division make the top 40 richest globally.

## Revenue, 2013-14 season, €m



Source: Deloitte

## Other markets

	Index Jan 21st	% change on		
		one week	Dec 31st 2013 in local currency	in \$ terms
United States (S&P 500)	2,032.1	+1.0	+9.9	+9.9
United States (NASComp)	4,667.4	+0.6	+11.8	+11.8
China (SSEB, \$ terms)	291.5	+0.5	+17.9	+14.9
Japan (Topix)	1,390.6	+2.4	+6.8	-4.7
Europe (FTSEurofirst 300)	1,431.1	+5.7	+8.7	-8.6
World, dev'd (MSCI)	1,694.3	+1.7	+2.0	+2.0
Emerging markets (MSCI)	976.1	+2.1	-2.7	-2.7
World, all (MSCI)	414.7	+1.8	+1.5	+1.5
World bonds (Citigroup)	902.8	-0.7	-0.4	-0.4
EMBI+ (JPMorgan)	688.3	nil	+5.6	+5.6
Hedge funds (HFRX)	1,210.5 <sup>§</sup>	-0.4	-1.2	-1.2
Volatility, US (VIX)	18.9	+21.5	+13.7 (levels)	
CDSs, Eur (iTRAXX) <sup>†</sup>	56.5	-9.2	-11.3	-25.4
CDSs, N Am (CDX) <sup>†</sup>	72.2	+1.0	+14.5	+14.5
Carbon trading (EU ETS) €	7.4	+2.2	+42.2	+19.6

Sources: Markit; Thomson Reuters. \*Total return index.

<sup>†</sup>Credit-default-swap spreads, basis points. <sup>§</sup>Jan 20th.

Indicators for more countries and additional series, go to: [Economist.com/indicators](http://Economist.com/indicators)

## The Economist commodity-price index

2005=100

2005=100

			% change on	
	Jan 13th*	Jan 20th*	one month	one year
<b>Dollar Index</b>				
All Items	148.4	147.2	-4.6	-9.9
Food	169.4	167.6	-4.3	-6.1
<b>Industrials</b>				
All	126.5	125.9	-5.0	-14.6
Nfa†	120.3	118.9	-5.4	-24.2
Metals	129.2	128.9	-4.8	-10.1
<b>Sterling Index</b>				
All items	177.8	176.2	-2.5	-2.4
<b>Euro Index</b>				
All items	156.6	158.1	+0.4	+5.5
<b>Gold</b>				
\$ per oz	1,235.7	1,291.5	+9.6	+4.0
<b>West Texas Intermediate</b>				
\$ per barrel	46.3	46.3	-18.8	-51.2

Sources: Bloomberg; CME Group; Cotlook; Darmann & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. \*Provisional

<sup>†</sup>Non-food agriculturals.

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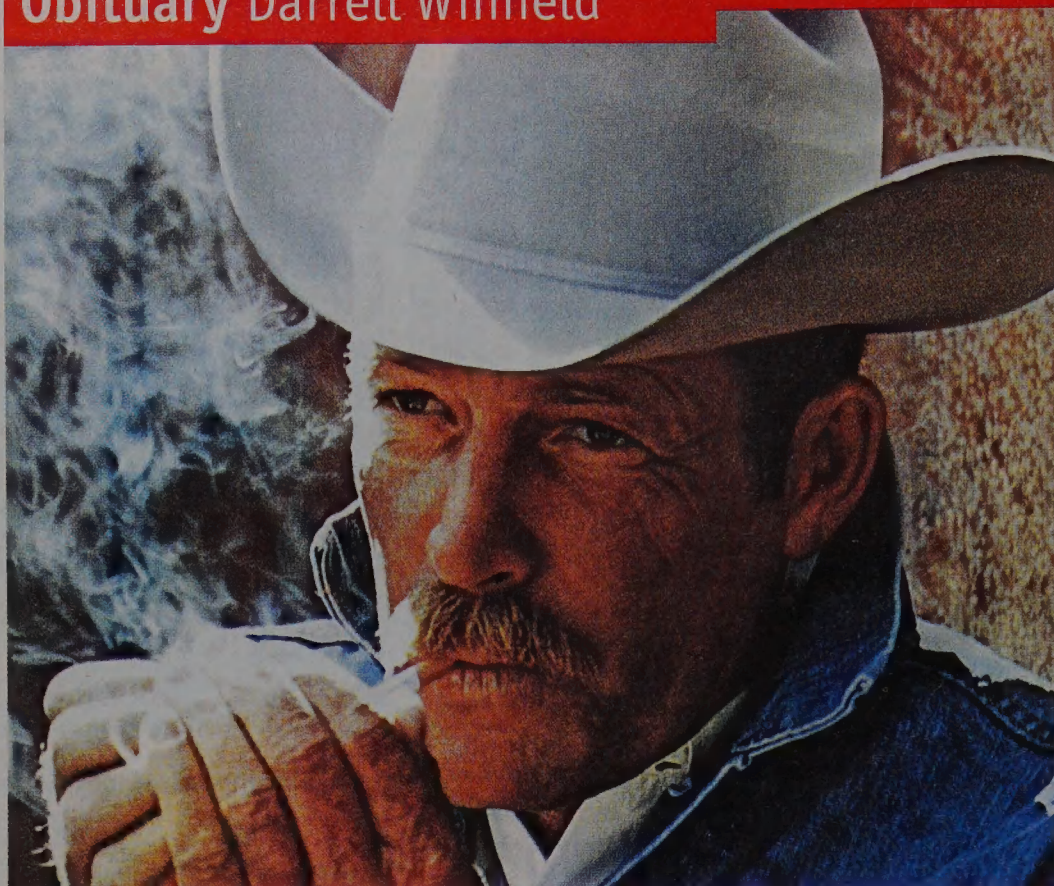
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## The man of make-believe

**Darrell Winfield, the "real" Marlboro Man, died on January 12th, aged 85**

OVER the years, all sorts were tried. One was a navy football coach; one ran a fencing company. One was a jobbing actor in police dramas; one lived in the New York Athletic Club, and had never smoked in his life. Several were models. One was so terrified of horses that he had to be hauled up with a rope and plonked into the saddle, every time.

Of all these Marlboro Men, used by the Philip Morris company after 1954 to bring masculine vigour to a "Mild as May" slow-selling filter cigarette, only one, according to a spokesman, was real. That was Darrell Winfield, the principal Man from 1968 to 1989. He was also the most successful. It was in his time, in 1972, that Marlboro became (as it remains) the world's bestselling brand, and it was mostly his lean, mustached face, squinting into a western sun, that broodily symbolised America on billboards from Lima to Latvia to Lagos.

Serendipity led to his discovery. In 1968 the men from the Leo Burnett advertising agency, uneasy Chicagoans let loose in the wild West, were out looking for authenticity on Philip Morris's behalf. They had decided more than a decade before that cowboys best epitomised masculinity. But merely to dress some Joe in denims and apply the Man-Tan did not a cowboy make. In Wyoming they found cowboys aplenty,

but it was Mr Winfield, a lowly wrangler, who caught the creative director's eye. "I want that guy," he said.

That guy. He needed no name, because it didn't matter. He fitted the physical template exactly: a noble, weatherbeaten face, a grey Stetson, lariat coiled on his shoulder, easy one-handed grace on a horse. There was also something inexorable about him, some terrific look, which "scared the hell" out of the creative director. And his life, of course, was already fully known. This was a mysterious wanderer, a modern Odysseus journeying who knew where; or perhaps a Jungian archetype, ranging the primeval savannah as man had done for most of the past 10,000 years. He was alone by choice in the vastness of the hills and plains, running his cattle and closely encountering wild white horses: alone save for that manly cigarette lodged in his thin, grim lips. Flinty and unconcerned, he would light the next smoke from a flaming stick plunged into his camp fire.

Mr Winfield certainly wore those clothes and roped those cattle; they were his. He liked to smoke, collected bits and spurs, and mainly read books about the West. But he was also a sociable guy. The gritty, hard-trek part of his life had been done when he was six, when his destitute farmer parents had left dust-bowl Oklaho-

ma for California. He enjoyed team-roping, and liked to play backgammon and gin rummy. He often had the neighbours round to his horse-ranch at Riverton; they said he was a tease and a joker. When he smiled, and he smiled a lot, he looked rather like Ronald Reagan.

### Aristotelian perfection

In the world of the TV ads, no family tied the Marlboro Man down. He had no home, though he was once in a ramshackle shed, holding his tin cup out roughly for coffee. As one scholar said (for he inspired much philosophising), he personified the Aristotelian aesthetic in which all that was accidental and particular was stripped away, leaving only the metaphysical essentials of what a perfect man of action should be. For one heart-stopping moment, in one ad, he rolled over in his blanket at dawn to reach for—what? A woman? Or, perish the thought, a man? Neither; his hat, of course, and his boots, with the spurs still on them.

Family filled Mr Winfield's life. He got married at 18 to Lennie Spring, a local rancher's daughter, having courted her secretly for months. Together they had Brian, Janet, Nancy, Linda, Debi and Darlene; then the grandchildren, three of whom they brought up themselves; then the great-grandchildren. The house rang with giggling and games and was warm with the smell of home cooking.

Marlboro Man was fuelled not merely by nicotine, but also by well-earned pride. He epitomised resilience, self-sufficiency, independence and free enterprise. As the right-wing American ideal, he obviously voted Republican. Mr Winfield was more complicated. A humble soul, he made nothing of his Hollywood connection, save joining the Screen Actors Guild. The money he earned was useful for the family and, in 1974, to buy his own place, but his life was just the same. Obediently he endured the endless takes required to get the right shot of him lighting up on horseback, hunched against the sunset, or flipping open that red-and-white pack to hold it just so in his big, hairy hand. As for his thinking life, he believed in the Native-American version of the world, held sacred sweats in his own lodge, and was known round Riverton by his Indian name, Strong Mountain, as much as by Darrell Winfield. That didn't necessarily suggest a vote for the Grand Old Party.

Bad health never plagued the Marlboro Man. Wind, sun and hard riding blew any weaknesses away. Other Marlboro men revealed the lie in that: several died, relatively young, of lung diseases. Mr Winfield lived long, loyally smoking Marlboros all that time, and his vascular system disabled him, with a stroke, some years before his breath failed. Why exactly it had failed, no one would precisely say. ■



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## Featured comment

*"I note with amusement that the columnist's principal approaches (constant positive comments, staged disagreements over minor points) are all well-worn tricks of parenting wilful children. Is there scope for awarding your targets gold stars for compliance, followed by a trip to the zoo, perhaps?"—on "The network effect", January 17th 2015*



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